

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature <i>Abraham & Gellray, P.C.</i> <i>Alan M. Stone</i>			Date	

**City of Portland
Ionia County, Michigan
FINANCIAL STATEMENTS
June 30, 2004**

City of Portland

Ionia County, Michigan

June 30, 2004

CITY COUNCIL AND ADMINISTRATION

Mr. James Barnes	Mayor
Mr. Brian Devlin	Mayor Pro-Tem
Mr. Eric Alderman	Council member
Mr. Roger Habegger	Council member
Ms. Kathy Parsons	Council member
Mr. Thomas Dempsey	City Manager
Ms. Yvonne Bailey	City Clerk
Ms. Brenda Schrauben	Finance Director/ Treasurer
Ms. Lisa Pung	City Assessor
Mr. William Davis	City Attorney

City of Portland

TABLE OF CONTENTS

June 30, 2004

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	i-ii
MANAGEMENT'S DISCUSSION AND ANALYSIS	iii-xii
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements	
Governmental Funds Balance Sheet	3-4
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	5
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	6-7
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	8
Statement of Net Assets - Proprietary Funds	9-10
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds	11-12
Statement of Cash Flows - Proprietary Funds	13-16
Statement of Net Assets - Fiduciary Funds	17
Notes to Financial Statements	16-39
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule - General Fund	40-42
Budgetary Comparison Schedule - City Income Tax Fund	43
Budgetary Comparison Schedule - Local Street Fund	44
OTHER SUPPLEMENTARY INFORMATION	
Combining Balance Sheet - Nonmajor Governmental Funds	45-46
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	47-48
Combining Statement of Net Assets - Internal Service Funds	49
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets - Internal Service Funds	50
Combining Statement of Cash Flows - Internal Service Funds	51
COMPONENT UNIT FUNDS	
DOWNTOWN DEVELOPMENT AUTHORITY	
Balance Sheet	52
Reconciliation of the Balance Sheet to the Statement of Net Assets	53
Statement of Revenues, Expenditures, and Changes in Fund Balance	54
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of the Governmental Fund to the Statement of Activities	55
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	56-57

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA

Karen A. Roka, CPA
James A. Huguelet, CPA
Alan D. Panter, CPA
William I. Tucker IV, CPA
Kurt M. Lemmen, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

Member:
American Institute of
Certified
Public Accountants
and
Michigan Association of
Certified Public
Accountants

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Portland
Portland, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of the City of Portland as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of the City of Portland as of June 30, 2004, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

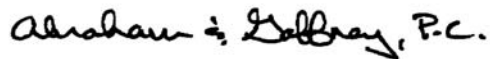
As described in Note A, the City has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as of July 1, 2003, along with all related statements and interpretations.

In accordance with Government Auditing Standards, we have also issued our report dated September 22, 2004 on our consideration of the City of Portland's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the Honorable Mayor and
Members of the City Council
City of Portland
Portland, Michigan

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Portland's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 22, 2004

City of Portland

Management's Discussion and Analysis

The following is a discussion and analysis of City of Portland's (the City's) financial performance and position, providing an overview of the activities for the year ended June 30, 2004. This analysis should be read in conjunction with the *Independent Auditors Report* and with the City's financial statements, which follow this section. 2003/2004 represents the first year the City implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as amended by GASB Statement No. 37 *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments - Omnibus* and Statement No. 38 *Certain Financial Statement Note Disclosures*. Therefore, this discussion and analysis provides few comparisons with the previous year. Future reports will include financial comparisons to the prior as required by GASB.

FINANCIAL HIGHLIGHTS

Government-wide:

- Total net assets were \$19,712,960 (excluding component units).
- Governmental activities net assets were \$9,703,471.
- Business-type activity net assets were \$10,009,489.
- Component Unit net assets were \$883,088.

Fund Level:

- At the close of the fiscal year, the City's governmental funds reported a combined ending fund balance of \$1,607,092 with \$172,116 being reserved, designated, or otherwise earmarked for specific purposes (street R.O.W., cemetery perpetual care, debt service).
- The General Fund realized \$30,424 more in revenues and other financing sources than anticipated for the fiscal year. The General Fund operations also expended \$254,463 less than appropriated.
- Overall, the General Fund balance increased by \$53,892 to \$276,587 - all undesignated and available for general purposes.

Capital and Long-term Debt Activities:

- The primary government had one (1) new debt issue for the fiscal year in the form of a Drinking Water Revolving Fund Loan in the amount of 674,422. This loan is for an ongoing project and the City will continue to draw on the note as construction progresses.
- The total long-term debt for the primary government was \$1,916,102, an increase of \$480,375 from the prior year.
- The City remains well below its authorized legal debt limit.
- The total additions to the capital asset schedule for the primary government were \$2,472,213 and included a new pedestrian bridge over the Grand River, a new well and well house, additions to the water and sewer systems, improvements to the 2nd floor of City Hall, a new meter reading truck, two (2) new pick-up trucks for the electric department, a used street sweeper, and the construction of a new water tower is in progress.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's annual financial report. The annual financial report of the City consists of the following components: 1) *Independent Auditors Report*; 2) *Management's Discussion and Analysis* and 3) the *Basic Financial Statements* (government-wide financial statements, fund financial statements, notes to the financial statements), 4) *Required Supplementary Information* such as budget to actual comparisons for the General Fund and major Special Revenue Funds, and 5) *Other Supplementary Information* including combining financial statements for all non-major governmental funds and other funds and other financial data.

City of Portland Management's Discussion and Analysis

Government-wide Financial Statements (Reporting the City as a Whole)

The set of government-wide financial statements are made up of the Statement of Net Assets and the Statement of Activities, which report information about the City as a whole, and about its activities. Their purpose is to assist in answering the question, is the City, in its entirety, better or worse off as a result of this fiscal year's activities? These statements, which include all non-fiduciary assets and liabilities, are reported on the *accrual basis of accounting*, similar to a private business. This means revenues are accounted for when they are *earned* and expenses are accounted for when *incurred*, regardless of when the actual cash is received or disbursed.

The Statement of Net Assets (page 1) presents all of the City's assets and liabilities, recording the difference between the two as "net assets". Over time, increases or decreases in net assets measure whether the City's financial position is improving or deteriorating.

The Statement of Activities (page 2) presents information showing how the City's net assets changed during 2003/2004. All changes in net assets are reported based on the period for which the underlying events giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenue and expenses are reported in these statements for some items that will only result in cash flows in future financial periods, such as uncollected taxes and earned but unused employee vacation leave.

Both statements report the following activities:

- ***Governmental Activities*** - Most of the City's basic services are reported under this category. Taxes, charges for services and intergovernmental revenue primarily fund these services. Most of the City's general government departments, public safety, public works, health and welfare (ambulance), economic development, city improvements, street improvements, recreation activities, and other City wide elected official operations are reported under these activities.
- ***Business-type Activities*** - These activities operate like private businesses. The City charges fees to recover the cost of the services provided. The Electric Light and Power System, the Sewage Disposal System and Water System Fund and are examples of these activities.
- ***Discretely Presented Component Units*** - Discretely Presented Component units are legally separate organizations for which the City Council and Administration appoints a majority of the organization's policy board and there is a degree of financial accountability to the City. One organization is included as a discretely presented component unit: the Downtown Development Authority.

As stated previously, the government-wide statements report on an *accrual* basis of accounting. However, the governmental funds report on a *modified accrual* basis. Under modified accrual accounting, revenues are recognized when they are measurable and available to pay obligations of the fiscal period; expenditures are recognized when they are due to be paid from available resources.

Because of the different basis of accounting between the fund statements (described below) and the government-wide statements, pages 5 and 8 present reconciliations between the two statement types. The following summarizes the impact of transitioning from modified accrual to full accrual accounting:

- Capital assets used in governmental activities (depreciation) are not reported on the fund financial statements of the governmental fund. Capital assets and depreciation expense are reported on the government-wide statements.
- Capital outlay spending results in capital assets on the government-wide statements, but is reported as expenditures on the fund financial statements of the governmental funds.

City of Portland

Management's Discussion and Analysis

- Internal service funds are reported as governmental activities on the government-wide statements, but are reported as proprietary funds on the fund financial statements.
- Long-term liabilities, such as amounts accrued for sick and annual leave (compensated absences), etc. appear as liabilities on the government-wide statements; however they will not appear on the fund financial statements unless current resources are used to pay a specific obligation.
- Long-term debt proceeds are reported as liabilities on the government-wide statements, but are recorded as other financing sources on the fund financial statements.

In addition, it should be noted that the government-wide financial statements include the net value of the City's general capital assets such as buildings, infrastructure, land, vehicles, computer equipment, etc. These values are not included in the fund financial statements.

Fund Financial Statements (Reporting the City's Major Funds)

The fund financial statements, which begin on page 3, provide information on the City's significant (major) funds, and aggregated non-major funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the City uses to keep track of specific sources of funding and spending for a particular purpose. Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar.

The *basic financial statements* report major funds as defined by the Government Accounting Standards Board (GASB) in separate columns. Statement 34 defines a "major fund" as the General Fund, and any governmental or enterprise fund which has either total assets, total liabilities, total revenues or total expenditures/expenses that equal at least ten (10) percent of those categories for either the governmental funds or the enterprise funds *and* where the individual fund total also exceeds five (5) percent of those categories for governmental and enterprise funds combined. The major funds for City of Portland include the General Fund, the City Income Tax Fund, the Local Street Fund, the DNR Grant Fund, The Electric Light and Power System Fund, the Sewage Disposal System Fund and the Water System Fund. All other funds are classified as non-major funds and are reported in aggregate by the applicable fund type.

The City's funds are divided into three categories - governmental, proprietary, and fiduciary - and use different accounting approaches:

- ***Governmental Funds*** - Most of the City's basic services are reported in the governmental funds. The focus of these funds is how cash and other financial assets that can be readily converted to cash, flow in and out during the course of the fiscal year and how the balances left at year-end are available for spending on future services. Consequently, the governmental fund financial statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that may be expended in the near future to finance the City's programs. Governmental funds include the *General Fund*, as well as *Special Revenue Funds* (use of fund balance is restricted, e.g. income tax, major street, local street, ambulance and recreation funds), *Capital Projects Funds* (used to report major capital acquisitions and construction, e.g. the DNR grant fund), and *Debt Service Funds* (accounts for resources used to pay long-term debt principal and interest E.g. the special assessment fund).
- ***Proprietary Funds*** - Services for which the City charges customers (whether outside the City structure or a City department) a fee are generally reported in proprietary funds. Proprietary funds use the same *accrual* basis of accounting used in the government-wide statements and by private business. There are two types of proprietary funds. *Enterprise funds* report activities that provide supplies and/or services to the general public. An example is the Sewer System Fund. *Internal Service funds* report activities that provide supplies or service to the City's other operations, such as the Motor Pool Fund. Internal Service funds are reported as governmental activities on the government-wide statements.

City of Portland

Management's Discussion and Analysis

- **Fiduciary Funds** - The City may act as a trustee or fiduciary in certain instances. It is also responsible for other assets that, because of trust arrangements, can only be used for the trust beneficiaries. The City's fiduciary activities are reported in the separate Statement of Net Assets on page 17. These funds, which include trust and agency funds, are reported using the accrual basis of accounting. The government-wide statements *exclude* the fiduciary fund activities and balances because these assets are not available to the City to fund its operations.

Notes to the Financial Statements

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the detail provided in the government-wide and fund financial statements. The Notes can be found beginning on page 18 of this report.

Required Supplementary Information

Following the Basic Financial Statements is additional Required Supplementary Information (RSI), which further explains and supports the information in the financial statements. RSI includes budgetary comparison schedules for the General Fund and the major special revenue funds.

Other Supplementary Information

Other Supplementary Information includes combining financial statements for non-major governmental, proprietary, and internal service funds. These funds are added together, by fund type, and are presented in aggregate single columns in the appropriate basic financial statements.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

As previously stated, City of Portland combined net assets were \$19,712,960 at the end of this fiscal year's operations. The net assets of the governmental activities were \$9,703,471; the business type activities were \$10,009,489.

Net Assets as of June 30, 2004

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total Primary Government</u>
Current Assets	\$ 2,312,515	\$ 3,124,024	\$ 5,436,539
Noncurrent Assets	<u>7,878,259</u>	<u>8,988,914</u>	<u>16,867,173</u>
Total Assets	<u>\$ 10,190,774</u>	<u>\$12,112,938</u>	<u>\$22,303,712</u>
Current Liabilities	\$ 336,126	\$ 475,023	\$ 811,149
Noncurrent Liabilities	<u>151,177</u>	<u>1,628,426</u>	<u>1,779,603</u>
Total Liabilities	<u>\$ 487,303</u>	<u>\$ 2,103,449</u>	<u>\$ 2,590,752</u>
Net Assets			
Invested in Capital Assets (Net of related debt)	\$ 7,674,631	\$ 6,822,223	\$ 14,496,854
Restricted	1,259,194	230,117	1,489,311
Unrestricted	<u>769,646</u>	<u>2,957,149</u>	<u>3,726,795</u>
Total Net Assets	<u>\$ 9,703,471</u>	<u>\$10,009,489</u>	<u>\$ 19,712,960</u>

City of Portland
Management's Discussion and Analysis

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the City's primary government net assets changed during the fiscal year:

Changes in Net Assets for the Fiscal Year Ending June 30, 2004

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Revenues			
Program Revenues			
Charges for Services	\$ 933,541	\$ 4,218,886	\$ 5,152,427
Grants and Contributions	736,470	185,120	921,590
General Revenues			
Property Taxes	918,717	-	918,717
State Shared Revenue	477,606	-	477,606
City Income Taxes	657,996	-	657,996
Investment Earnings	27,583	15,317	42,900
Miscellaneous	29,040	60,417	89,457
Transfers	<u>75,023</u>	<u>(75,023)</u>	<u>-</u>
Total Revenues	3,855,976	4,404,717	8,260,693
Expenses			
General Government	982,252	-	982,252
Public Safety	950,351	-	950,351
Public Works	141,137	-	141,137
Health and Welfare	403,385	-	403,385
Community and Econ. Dev.	18,620	-	18,620
Recreation and Cultural	300,828	-	300,828
Other	<u>3,309</u>	<u>3,653,775</u>	<u>3,656,084</u>
Total Expenses	<u>2,799,882</u>	<u>3,652,775</u>	<u>6,452,657</u>
Increase in Net Assets	1,056,094	751,942	1,808,036
Net Assets - Beginning	<u>8,647,377</u>	<u>9,257,547</u>	<u>17,904,924</u>
Net Assets - Ending	<u>\$ 9,703,471</u>	<u>\$ 10,009,489</u>	<u>\$ 19,712,960</u>

Governmental Activities:

The result of 2003/2004 governmental activity was an increase of \$1,056,094 in net assets to \$9,703,471. Of the total governmental activities' net assets, \$7,674,631 is invested in capital assets less related debt, \$1,259,194 is reported as restricted, meaning these assets are legally committed for a specific purpose through statute, or by another authority outside the City government. The balance of \$769,646 is listed as unrestricted, having no legal commitment.

City of Portland Management's Discussion and Analysis

Revenues:

The three largest revenue categories were charges for services at 24.2%, property taxes at 23.8%, and grants and contributions at 19.1%. Charges for services, which reimburse the City for specific activities, are the largest source of governmental activity revenue. Examples include items such as ambulance fees, township fire fees, recreation fees and contributions, administrative charges, permits and motor pool equipment rental. The City levied a property tax millage for the year ended June 30, 2004, for general government operations at 13.8408 mills, which is not assigned to any particular activity. Grants and contributions include capital grants (e.g. DNR grant and FEMA grant) and State operating assistance (e.g. State shared revenues).

Expenses:

General government is the largest governmental activity, expending approximately 35% of the governmental activities total and includes general government departments (e.g. council, community promotions, city manager, elections, general administration, assessor, city hall maintenance, and cemetery operations). Public Safety is the second largest area, expending approximately 34% of the governmental activities total on law enforcement, fire protection and code enforcement. Public Works expended approximately 5% of the governmental activities total and would be higher if capital outlay charged to this function in the funds were not shown as capital assets in the government-wide financial statements.

Business-type Activities:

Net assets in business-type activities increased by \$1,788,943 during fiscal year 2003/2004. Of the business-type activities' net assets, \$6,822,223 is invested in capital assets net of related debt, \$230,117 is reported as restricted, meaning these assets are legally committed for a specific purpose through statute, or by another authority outside the City government. The balance of \$2,957,149 is listed as unrestricted, having no legal commitment.

FINANCIAL ANALYSIS OF THE CITY'S MAJOR AND NON MAJOR FUNDS

As the City completed 2003/2004, its governmental funds reported *combined* fund balances of \$1,607,092. This is a net increase of \$70,248. The net changes are summarized in the following chart:

	General Fund	City Income Tax	Local Street	DNR Grant	Nonmajor Governmental Funds	Total Governmental Funds
Fund Balance 06/30/03	\$ 222,695	\$ 297,638	\$ 157,466	\$ 412,124	\$ 446,921	\$1,536,844
Fund Balance 06/30/04	\$ 276,587	\$ 819,292	\$ 79,702	\$ 20,831	\$ 410,680	\$1,607,092
Net Change	\$ 53,892	\$ 521,654	\$ (77,764)	\$ (391,293)	\$ (36,241)	\$ 70,248

City of Portland

Management's Discussion and Analysis

General Fund:

The General Fund is the chief operating fund of the City. Unless otherwise required by statute, contractual agreement or Board policy, all City revenues and expenditures are recorded in the General Fund. As of June 30, 2004, the General Fund reported a fund balance of \$296,587. This amount is an increase of \$73,892 from the fund balance of \$222,695 reported as of June 30, 2003. The 2003/2004 original budget had called for a \$124,208 use of fund balance. The entire fund balance is reported as undesignated.

General Fund revenues appear higher this year due to increases in SEV, the addition of administrative charges that were in an administrative service fund in 2002/2003 and changes in accounting practices to reflect retiree health reimbursements as revenues when they were formerly recorded as reductions in expenses (this change increases both revenues and expenses and does not impact the bottom line).

The General Fund 2003/2004 revenues exceeded 2003/2004 expenditures by \$70,429 due in large part to curtailed spending on account of rumored cuts to state shared revenues which were less drastic than anticipated. It should be noted that the General Fund also supports the operations of other funds including the Recreation Fund and Portland Area Ambulance Fund, which collectively received \$57,000 in support from the General Fund.

General Fund Budgetary Highlights:

The City of Portland's budget is a dynamic document. Although adopted in May (prior to the start of the year), the budget is routinely amended during the course of the year to reflect changing operational demands.

Actual General Fund revenue and other financing sources totaled \$2,038,357, \$73,130 above the final amended budget. There were some wide variations in individual revenue accounts reflecting the tightening national and local economy.

The \$70,130 excess in budgeted General Fund Revenue was due to increased rentals, increased charges for services, higher than anticipated revenue from fines and forfeits and changes in how retiree's contributions toward health insurance are recorded. These factors helped General Fund revenue exceed budgeted amount despite the fact that State sales tax payments were \$27,164 less than budgeted.

The City's expenditure budget was increased by \$100,200 (5% above the original budget) during 2003/2004. The majority of this increase (\$97,600; 97.6%) was for General government expenditures.

Actual City expenditures for 2003/2004 were \$254,463 below the amended budget and \$154,263 below the original budget. The additions to the original budget were offset by reduced spending and deferral of some planned capital purchases because of financial uncertainty associated with State cuts to revenue sharing. The City also experienced some savings because certain expenses were not realized (e.g. amounts budgeted for elections) or personnel levels were below the amounts budgeted (e.g. police).

Overall general fund expenditures were down due to several reasons including:

- \$34,061 less than planned expenditures in the Parks and Recreation Department.
- \$1,980 less than planned expenditures in the Economic Development Department.
- \$40,059 less than planned expenditures in the Police Department.
- \$28,390 less than planned expenditures in the Fire Department
- \$14,578 less than planned expenditures in the Code Enforcement Department.
- \$33,310 less than planned expenditures in the Cemetery Department
- \$59,190 less than planned expenditures for General Administration

City of Portland

Management's Discussion and Analysis

- \$20,285 less than planned expenditures for City Hall Building and Grounds
- \$11,823 less than planned expenditures for Elections
- \$7,283 less than planned expenditures for Assessing
- \$4,358 less than planned expenditures for Community Promotions
- \$770 less than planned expenditures for Council Boards and Commissions

The only general fund department that expended more the planned expenditures (\$1,624) was the City Manager Department. The overage was due to the accrual of unused leave at year end that was carried back into the prior year.

City Income Tax Fund

As of June 30, 2004, the City Income Tax Fund reported a fund balance of \$819,292, an increase of \$521,654 from the prior year. The total fund balance is undesignated/unreserved. While the City finance statements show these funds as undesignated, the City has used the income tax funds exclusively for the improvement of streets, sidewalks, curb, gutter, street lighting, parking areas, associated utilities and their appurtenances. The fund balance is higher this year as the City funded its street improvement projects with existing fund balances available in other funds.

Local Street Fund

As of June 30, 2004, the Local Street Fund reported a fund balance \$79,702, which is a decrease of \$77,764 from the prior year. Local Street maintenance and improvement activities included the resurfacing of Oak and Okemos Streets near Oakwood Elementary School.

\$9,183 of the fund balance is attributable to revenues received from METRO Authority and is reserved for right-of-way maintenance and/or improvements. The remaining balance of \$70,519 is undesignated/unreserved.

DNR Grant Fund

As of June 30, 2004 the DNR Grant fund reported a fund balance of \$20,831, which is a decrease of \$391,293 from the prior year. The decrease in funds is attributable to the Kent Street Bridge Relocation Project. The total fund balance is undesignated/unreserved.

Business Type Activities Funds

As the City completed 2003/2004, its business type activities funds reported *combined* net assets of \$10,009,489. This is a net decrease of \$204,382. The net changes are summarized in the following chart.

	Electric Light and Power System Fund	Sewage Disposal System Fund	Water System Fund	Total
Net Assets 06/30/03	\$ 5,185,166	\$ 953,216	\$ 2,082,164	\$ 8,220,546
Net Assets 06/30/04	\$ 6,353,673	\$ 1,291,205	\$ 2,364,611	\$10,009,489
Net Change	\$ 1,168,507	\$ 337,989	\$ 282,447	\$ 1,788,943

City of Portland

Management's Discussion and Analysis

Electric Light and Power System Fund:

As of June 30, 2004, the Electric Light and Power System Fund reported net assets of \$6,353,673, an increase of \$1,168,507 from the prior year. The increase includes \$476,656 from an increase in net assets and \$691,851 from the re-valuation of capital assets due to GASB 34 inventory procedures. Of the entire net assets, \$70,000 is reported as being reserved due to the requirements of Section 12.9 of the City Charter.

Sewage Disposal System Fund:

As of June 30, 2004, the Sewer Fund reported net assets of \$1,291,205, an increase of \$337,989 from the prior year. The increase includes \$106,686 from an increase in net assets and \$231,303 from the re-valuation of capital assets due to GASB 34 inventory procedures. The total net assets balance is undesignated/unreserved.

Water System Fund:

As of June 30, 2004, the Water System Fund reported a fund balance of \$2,364,611, an increase of \$282,447 from the prior year. The increase includes \$168,600 from an increase in net assets and \$113,847 from the re-valuation of capital assets due to GASB 34 inventory procedures. The total fund balance is undesignated/unreserved.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - At the end of Fiscal Year 2003/2004, the City had invested \$16,373,904, and \$2,620,130 for the component units, net of accumulated depreciation, in a broad range of capital assets (see table below). Additional information related to capital assets is detailed in Note G of the Financial Statements. Net Book value of capital assets at June 30, 2004 was as follows:

	Governmental Activities	Business- type Activities	Component Unit DDA	Total
Land	\$ 1,075,920	\$ -	\$ -	\$ 1,075,920
Buildings, net	311,281	-	2,470,950	2,782,231
Vehicles and equipment, net	789,414	-	-	789,414
Electric system, net	-	5,156,181	-	5,156,181
Sewer system, net	-	1,041,349	-	1,041,349
Water system, net	-	2,289,115	-	2,289,115
Infrastructure Streets & Bridges, net	5,701,644	-	149,180	5,850,824
Capital assets, net	\$ 7,878,259	\$ 8,486,645	\$ 2,620,130	\$ 18,985,034

Long-term Debt - As of June 30, 2004, the City had \$1,916,102 in loans outstanding for the primary government. This level of net obligation is \$480,375 more than the obligation recorded as of June 30, 2003, principally due to the 2004 DWRP bonds.

City of Portland Management's Discussion and Analysis

Outstanding Debt as of June 30, 2004:

Primary Government	<u>July 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2004</u>
Governmental Activities				
Special Assessment Bonds	\$ 75,000	\$ -	\$ 5,000	\$ 70,000
Capital Leases Payable	53,217	-	12,637	40,580
Notes Payable	134,149	-	41,101	93,048
Compensated Absences	3,361	44,691	-	48,052
Business-type Activities				
Elec. 1993 Rev. Bonds	200,000	-	95,000	105,000
Elec. 1994 Rev. Bonds	520,000	-	10,000	510,000
2002 Note Payable	215,000	-	60,000	155,000
Sewer 1995 Rev. Bonds	235,000	-	15,000	220,000
Water 2004 DWRF Bonds	<u>-</u>	<u>674,422</u>	<u>-</u>	<u>674,422</u>
Total Primary Government	1,435,727	719,113	238,738	1,916,102
Component Unit				
General Obligation Bonds	<u>2,080,000</u>	<u>-</u>	<u>90,000</u>	<u>1,990,000</u>
Total Reporting Entity	<u>\$3,515,727</u>	<u>\$ 719,113</u>	<u>\$ 328,738</u>	<u>\$3,906,102</u>

A more detailed discussion of the City's long-term debt obligations is presented in Note H to the financial statements.

CITY OF PORTLAND GOVERNMENT ECONOMIC OUTLOOK:

- State revenue sharing has declined nearly \$91,000 over the past four years, and may face additional cuts due to state budget problems.
- Property tax revenue has not kept pace with inflation.
- Investment earnings are at historically low levels due to low market interest rates, decreasing by nearly 80% over the past four years.
- Health and dental insurance premiums are rising much faster than the rate of inflation.
- Retirement costs are increasing due to poor stock market performance over the last several years.
- Utility costs are rising faster than the rate of inflation.
- Hazard/Liability Insurance costs are rising faster than the rate of inflation.

These factors were considered in adopting the Budget for 2004/2005. A usage of \$73,416 of the City's fund balance was included to balance the General Fund Budget, although it is estimated that the deficit will be less as the City continues to look for ways to increase efficiencies and reduce the cost of doing business.

Long term prospects for balancing the City's budget look to improve based upon the annexation of 152 acres along I-96.

CONTACTING THE CITY

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If there are questions about this report, or a need for additional information, contact the City of Portland's Treasurer's Office at (517) 647-2933.

BASIC FINANCIAL STATEMENTS

City of Portland

STATEMENT OF NET ASSETS

June 30, 2004

	Primary Government			Component
	Governmental	Business-type	Total	Unit
	Activities	Activities		(DDA)
ASSETS				
Current assets				
Cash and cash equivalents	\$ 1,967,374	\$ 2,210,415	\$ 4,177,789	\$ 285,707
Receivables	240,059	521,051	761,110	-
Due from other governmental units	25,290	70,307	95,597	-
Internal balances	41,548	(26,548)	15,000	(15,000)
Due from fiduciary funds	38,244	-	38,244	-
Inventories	-	348,799	348,799	-
Total current assets	2,312,515	3,124,024	5,436,539	270,707
Noncurrent assets				
Cash and cash equivalents - restricted	-	502,269	502,269	5,106
Capital assets, net	7,878,259	8,486,645	16,364,904	2,620,130
Total noncurrent assets	7,878,259	8,988,914	16,867,173	2,625,236
TOTAL ASSETS	10,190,774	12,112,938	22,303,712	2,895,943
LIABILITIES				
Current liabilities				
Accounts payable	149,096	199,445	348,541	-
Accrued liabilities	86,527	78,573	165,100	22,855
Customer deposits	-	7,005	7,005	-
Current portion of compensated absences	38,442	-	38,442	-
Current portion of long-term debt	62,061	190,000	252,061	95,000
Total current liabilities	336,126	475,023	811,149	117,855
Noncurrent liabilities				
Customer deposits payable				
from restricted assets	-	154,004	154,004	-
Noncurrent portion of compensated absences	9,610	-	9,610	-
Noncurrent portion of long-term debt	141,567	1,474,422	1,615,989	1,895,000
Total noncurrent liabilities	151,177	1,628,426	1,779,603	1,895,000
TOTAL LIABILITIES	487,303	2,103,449	2,590,752	2,012,855
NET ASSETS				
Invested in capital assets, net of related debt	7,674,631	6,822,223	14,496,854	630,130
Restricted for				
Utilities	-	70,000	70,000	-
Capital improvement	27,432	-	27,432	-
Debt service	31,947	160,117	192,064	-
Other purposes	1,199,815	-	1,199,815	-
Unrestricted	769,646	2,957,149	3,726,795	252,958
TOTAL NET ASSETS	\$ 9,703,471	\$ 10,009,489	\$ 19,712,960	\$ 883,088

See accompanying notes to financial statements.

City of Portland
STATEMENT OF ACTIVITIES
Year Ended June 30, 2004

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units
					Governmental Activities	Business-type Activities	Total	
Primary government								
Governmental activities								
General government	\$ 982,252	\$ 393,529	\$ 5,056	\$ -	\$ (583,667)	\$ -	\$ (583,667)	\$ -
Public safety	950,351	157,936	1,688	-	(790,727)	-	(790,727)	-
Public works	141,137	-	309,715	398,808	567,386	-	567,386	-
Health and welfare	403,385	303,049	-	-	(100,336)	-	(100,336)	-
Community and economic development	18,620	-	-	-	(18,620)	-	(18,620)	-
Recreation and cultural	300,828	79,027	21,203	-	(200,598)	-	(200,598)	-
Interest on long-term debt	3,309	-	-	-	(3,309)	-	(3,309)	-
Total governmental activities	2,799,882	933,541	337,662	398,808	(1,129,871)	-0-	(1,129,871)	-0-
Business-type activities								
Electric, Light, and Power System	2,654,755	2,958,890	-	185,120	-	489,255	489,255	-
Sewage Disposal System	504,691	603,434	-	-	-	98,743	98,743	-
Water System	493,329	656,562	-	-	-	163,233	163,233	-
Total business-type activities	3,652,775	4,218,886	-0-	185,120	-0-	751,231	751,231	-0-
Total primary government	<u>\$ 6,452,657</u>	<u>\$ 5,152,427</u>	<u>\$ 337,662</u>	<u>\$ 583,928</u>	(1,129,871)	751,231	(378,640)	-0-
Component unit								
Downtown Development Authority	<u>\$ 173,522</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	-0-	-0-	-0-	(173,522)
		General revenues						
		Property taxes			918,717	-	918,717	241,028
		State shared revenue			477,606	-	477,606	-
		City income taxes			657,996	-	657,996	-
		Investment earnings			27,583	15,317	42,900	810
		Miscellaneous			29,040	60,417	89,457	17,132
		Transfers			75,023	(75,023)	-	-
		Total general revenues and transfers			2,185,965	711	2,186,676	258,970
		Change in net assets			1,056,094	751,942	1,808,036	85,448
		Net assets, beginning of the year			8,647,377	9,257,547	17,904,924	797,640
		Net assets, end of the year			\$ 9,703,471	\$ 10,009,489	\$ 19,712,960	\$ 883,088

See accompanying notes to financial statements.

City of Portland
GOVERNMENTAL FUNDS BALANCE SHEET
June 30, 2004

	General	City Income Tax	Local Street	DNR Grant
ASSETS				
Cash and cash equivalents	\$ 343,652	\$ 840,980	\$ 102,736	\$ 25,812
Receivables				
Taxes	1,133	-	-	-
Accounts	639	92,555	559	-
Special assessments	-	85,406	-	-
Due from other governmental units				
State	-	-	6,931	-
Due from other funds	56,446	-	89,273	-
Due from component unit	15,000	-	-	-
TOTAL ASSETS	\$ 416,870	\$ 1,018,941	\$ 199,499	\$ 25,812
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 18,763	\$ 191	\$ 111,977	\$ 4,981
Accrued liabilities	57,520	-	2,975	-
Due to other funds	-	114,052	4,845	-
Deferred revenue	-	85,406	-	-
Advances from other funds	64,000	-	-	-
TOTAL LIABILITIES	140,283	199,649	119,797	4,981
FUND BALANCES				
Reserved for				
Streets - Right of Way	-	-	9,183	-
Perpetual care	-	-	-	-
Debt service	-	-	-	-
Unreserved - undesignated	276,587	819,292	70,519	20,831
TOTAL FUND BALANCES	276,587	819,292	79,702	20,831
TOTAL LIABILITIES AND FUND BALANCES	\$ 416,870	\$ 1,018,941	\$ 199,499	\$ 25,812

See accompanying notes to financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ 373,342	\$ 1,686,522
-	1,133
38,578	132,331
20,324	105,730
18,359	25,290
25,546	171,265
-	15,000
<u>\$ 476,149</u>	<u>\$ 2,137,271</u>

\$ 6,504	\$ 142,416
16,813	77,308
14,124	133,021
20,324	105,730
7,704	71,704
<u>65,469</u>	<u>530,179</u>

5,871	15,054
123,042	123,042
34,020	34,020
247,747	1,434,976
<u>410,680</u>	<u>1,607,092</u>

<u>\$ 476,149</u>	<u>\$ 2,137,271</u>
-------------------	---------------------

City of Portland

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

June 30, 2004

Total fund balance - governmental funds \$ 1,607,092

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 10,855,184	
Accumulated depreciation is	<u>(2,976,925)</u>	
Capital assets, net		7,878,259

Internal Service Funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the Internal Service Funds are included in the governmental activities in the Government-wide Statement of Net Assets.

Net assets of governmental activities accounted for in Internal Service Funds	780,496	
Long-term obligations of Internal Service Funds included in total long-term liabilities below	93,048	
Accrued interest payable of Internal Service Funds included in total long-term liabilities below	853	
Net capital assets of Internal Service Funds included in total capital assets above	<u>(508,254)</u>	
		366,143

Long-term receivables are not available to pay for current period expenditures and, therefore, are deferred in the funds. These consist of:

Deferred revenue		105,730
------------------	--	---------

Long-term liabilities are not due and payable in the current period and therefore are not reported in the Governmental Funds Balance Sheet. Long-term liabilities at year-end consist of:

Bonds, loans, and leases payable	203,628	
Accrued interest payable	2,073	
Compensated absences	<u>48,052</u>	
		<u>(253,753)</u>

Net assets of governmental activities \$ 9,703,471

See accompanying notes to financial statements.

City of Portland

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2004

	General	City Income Tax	Local Street	DNR Grant
REVENUES				
Taxes	\$ 849,485	\$ 644,899	\$ 66,134	\$ -
Licenses and permits	23,360	-	-	-
Intergovernmental	481,614	-	83,707	332,506
Charges for services	477,410	-	-	-
Fines and forfeits	22,436	13,098	-	-
Interest and rents	10,873	4,027	1,022	1,926
Other	49,923	14,134	1,195	-
TOTAL REVENUES	1,915,101	676,158	152,058	334,432
EXPENDITURES				
General government	764,871	126,311	-	200
Public safety	843,714	-	-	-
Public works	43,179	-	359,728	-
Health and welfare	31,259	-	-	-
Community and economic development	18,620	-	-	-
Recreation and cultural	143,029	-	-	-
Capital outlay	-	-	-	725,525
Debt service	-	-	-	-
TOTAL EXPENDITURES	1,844,672	126,311	359,728	725,725
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	70,429	549,847	(207,670)	(391,293)
OTHER FINANCING SOURCES (USES)				
Residual equity transfers	42,706	-	-	-
Operating transfers in	80,550	-	129,906	-
Operating transfers out	(59,793)	(135,433)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	63,463	(135,433)	129,906	-0-
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	133,892	414,414	(77,764)	(391,293)
Fund balances, beginning of year	222,695	297,638	157,466	412,124
Prior period adjustments	(80,000)	107,240	-	-
Fund balances, end of year	<u>\$ 276,587</u>	<u>\$ 819,292</u>	<u>\$ 79,702</u>	<u>\$ 20,831</u>

See accompanying notes to financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 1,560,518
-	23,360
392,916	1,290,743
234,677	712,087
-	35,534
3,610	21,458
14,628	79,880
645,831	3,723,580
600	891,982
-	843,714
173,092	575,999
326,863	358,122
-	18,620
124,043	267,072
53,824	779,349
9,548	9,548
687,970	3,744,406
(42,139)	(20,826)
(41,191)	1,515
59,793	270,249
-	(195,226)
18,602	76,538
(23,537)	55,712
446,921	1,536,844
(12,704)	14,536
<u>\$ 410,680</u>	<u>\$ 1,607,092</u>

City of Portland

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2004

Net change in fund balances - total governmental funds \$ 55,712

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 1,334,303	
Depreciation expense	<u>(371,195)</u>	
Excess of capital outlay over depreciation expense		963,108

Internal service funds are used by management to charge the costs of certain activities to individual funds.

(Decrease) in net assets of Internal Service Funds	(90,836)	
Bond principal retirements of Internal Service Funds included in the total below	(41,101)	
Depreciation expense of Internal Service Funds included in the total above	<u>103,722</u>	(28,215)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Increase in deferred revenue		50,539
------------------------------	--	--------

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Bonds, loans, and capital lease principal retirements		58,738
---	--	--------

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued interest payable	903	
(Increase) in accrued compensated absences	<u>(44,691)</u>	
		<u>(43,788)</u>

Change in net assets of governmental activities \$ 1,056,094

See accompanying notes to financial statements.

City of Portland

Proprietary Funds

STATEMENT OF NET ASSETS

June 30, 2004

	Business-type Activities		
	Electric Light and Power System	Sewage Disposal System	Water System
ASSETS			
Current assets			
Cash and cash equivalents	\$ 1,113,275	\$ 304,754	\$ 792,386
Accounts receivable	361,927	73,736	85,388
Due from other governmental units			
State	13,363	-	56,944
Inventories	340,501	-	8,298
Total current assets	1,829,066	378,490	943,016
Noncurrent assets			
Cash and cash equivalents - restricted	330,266	152,237	19,766
Advances to other funds	-	-	-
Capital assets, net	5,156,181	1,041,349	2,289,115
Total noncurrent assets	5,486,447	1,193,586	2,308,881
TOTAL ASSETS	7,315,513	1,572,076	3,251,897
LIABILITIES			
Current liabilities			
Accounts payable	27,216	22,098	150,131
Accrued liabilities	48,121	16,940	13,512
Customer deposits	4,098	-	2,907
Current portion of long-term debt	175,000	15,000	-
Total current liabilities	254,435	54,038	166,550
Noncurrent liabilities			
Customer deposits payable from restricted assets	112,405	21,833	19,766
Advances from other funds	-	-	26,548
Bonds and notes payable	595,000	205,000	674,422
Total noncurrent liabilities	707,405	226,833	720,736
TOTAL LIABILITIES	961,840	280,871	887,286
NET ASSETS			
Invested in capital assets, net of related debt	4,386,181	821,349	1,614,693
Restricted for utilities	70,000	-	-
Restricted for debt service	126,617	33,500	-
Unrestricted	1,770,875	436,356	749,918
TOTAL NET ASSETS	\$ 6,353,673	\$ 1,291,205	\$ 2,364,611

See accompanying notes to financial statements.

	Governmental Activities
Total	Internal Service Funds
\$ 2,210,415	\$ 280,852
521,051	865
70,307	-
348,799	-
3,150,572	281,717
502,269	-
-0-	98,252
8,486,645	508,254
8,988,914	606,506
12,139,486	888,223
199,445	6,680
78,573	7,999
7,005	-
190,000	43,401
475,023	58,080
154,004	-
26,548	-
1,474,422	49,647
1,654,974	49,647
2,129,997	107,727
6,822,223	415,206
70,000	-
160,117	-
2,957,149	365,290
<u>\$ 10,009,489</u>	<u>\$ 780,496</u>

City of Portland

Proprietary Funds

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended June 30, 2004

	Business-type Activities		
	Electric Light and Power System	Sewage Disposal System	Water System
OPERATING REVENUES			
Charges for services			
User charges	\$ 2,958,890	\$ 552,059	\$ 629,912
Tap fees	-	51,375	26,650
Other	15,587	24,990	19,840
TOTAL OPERATING REVENUES	2,974,477	628,424	676,402
OPERATING EXPENSES			
Salaries and wages	314,661	136,200	117,757
Fringe benefits	135,489	62,287	41,534
Contractual services	42,913	167,287	97,860
Supplies	255,567	21,055	28,063
Heat, light, and power	1,434,829	-	78,168
Communications	3,688	2,728	4,032
Insurance and bonds	11,310	4,801	516
Repairs and maintenance	143,483	-	8,531
Administrative services	53,520	31,800	41,904
Building and equipment rental	2,334	5,701	11,189
Other	37,387	307	2,126
Depreciation	178,047	58,129	54,487
TOTAL OPERATING EXPENSES	2,613,228	490,295	486,167
OPERATING INCOME	361,249	138,129	190,235
NONOPERATING REVENUES (EXPENSES)			
Interest earned	5,764	3,021	6,532
Intergovernmental - Federal	185,120	-	-
Interest expense and fees	(41,527)	(14,396)	(7,162)
TOTAL NONOPERATING REVENUES (EXPENSES)	149,357	(11,375)	(630)
INCOME BEFORE TRANSFERS	510,606	126,754	189,605
TRANSFERS IN (OUT)			
Transfers in	-	3,232	2,295
Transfers out	(33,950)	(23,300)	(23,300)
TOTAL TRANSFERS IN (OUT)	(33,950)	(20,068)	(21,005)
CHANGE IN NET ASSETS	476,656	106,686	168,600
Net assets, beginning of year	5,185,166	953,216	2,082,164
Prior period adjustments	691,851	231,303	113,847
Net assets, end of year	\$ 6,353,673	\$ 1,291,205	\$ 2,364,611
See accompanying notes to financial statements.			

Total	Governmental Activities Internal Service Funds
\$ 4,140,861	\$ 254,740
78,025	-
60,417	2,882
4,279,303	257,622
568,618	68,207
239,310	37,268
308,060	2,662
304,685	39,452
1,512,997	5,851
10,448	1,045
16,627	25,563
152,014	30,786
127,224	26,760
19,224	-
39,820	160
290,663	103,722
3,589,690	341,476
689,613	(83,854)
15,317	6,834
185,120	-
(63,085)	(12,301)
137,352	(5,467)
826,965	(89,321)
5,527	-
(80,550)	(1,515)
(75,023)	(1,515)
751,942	(90,836)
8,220,546	1,014,583
1,037,001	(143,251)
\$ 10,009,489	\$ 780,496

City of Portland

Proprietary Funds

STATEMENT OF CASH FLOWS

Year Ended June 30, 2004

	Business type-Activities		
	Electric Light and Power System	Sewage Disposal System	Water System
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers	\$ 2,943,740	\$ 625,175	\$ 617,206
Cash paid to suppliers	(2,006,278)	(227,598)	(156,270)
Cash paid for employee benefits	(453,187)	(197,182)	(158,289)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	484,275	200,395	302,647
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers in	-	3,232	2,295
Transfers out	(33,950)	(23,300)	(23,300)
NET CASH (USED) BY NONCAPITAL FINANCING ACTIVITIES	(33,950)	(20,068)	(21,005)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Payments of borrowing	(165,000)	(15,000)	-
Loan proceeds	-	-	674,422
Payments on advances	-	-	(31,895)
Capital grants (Federal)	185,120	-	-
Purchase of capital assets	(444,694)	(37,953)	(655,263)
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(424,574)	(52,953)	(12,736)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest earned	5,764	3,021	6,532
Interest expense and fees	(41,527)	(14,396)	(7,162)
NET CASH (USED) BY INVESTING ACTIVITIES	(35,763)	(11,375)	(630)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(10,012)	115,999	268,276
Cash and cash equivalents, beginning of year	1,453,553	340,992	543,876
Cash and cash equivalents, end of year	\$ 1,443,541	\$ 456,991	\$ 812,152

	Governmental Activities
	Internal Service Funds
<u>Total</u>	
\$ 4,186,121	\$ 257,622
(2,390,146)	(153,351)
<u>(808,658)</u>	<u>(112,030)</u>
987,317	(7,759)
5,527	-
<u>(80,550)</u>	<u>(1,515)</u>
(75,023)	(1,515)
(180,000)	(41,101)
674,422	-
(31,895)	52,896
185,120	-
<u>(1,137,910)</u>	<u>(39,685)</u>
(490,263)	(27,890)
15,317	6,834
<u>(63,085)</u>	<u>(12,301)</u>
<u>(47,768)</u>	<u>(5,467)</u>
374,263	(42,631)
<u>2,338,421</u>	<u>323,483</u>
<u>\$ 2,712,684</u>	<u>\$ 280,852</u>

City of Portland

Proprietary Funds

STATEMENT OF CASH FLOWS - CONTINUED

Year Ended June 30, 2004

	Business type Activities		
	Electric Light and Power System	Sewage Disposal System	Water System
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating income (loss)	\$ 361,249	\$ 138,129	\$ 190,235
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Depreciation	178,047	58,129	54,487
(Increase) Decrease in accounts receivable	(21,300)	(7,077)	(1,691)
(Increase) Decrease in due from other governmental units	(13,363)	-	(56,944)
(Increase) Decrease in inventories	33,394	-	-
Increase (Decrease) in accounts payable	(54,641)	6,081	116,119
Increase (Decrease) in accrued liabilities	(3,037)	1,305	1,002
Increase (Decrease) in customer deposits	3,926	3,828	(561)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 484,275</u>	<u>\$ 200,395</u>	<u>\$ 302,647</u>

See accompanying notes to financial statements.

		Governmental Activities
		<u>Internal Service Funds</u>
<u>Total</u>		
\$ 689,613	\$	(83,854)
290,663		103,722
(30,068)		-
(70,307)		-
33,394		-
67,559		(21,072)
(730)		(6,555)
<u>7,193</u>		<u>-</u>
<u>\$ 987,317</u>	<u>\$</u>	<u>(7,759)</u>

City of Portland

Fiduciary Fund

STATEMENT OF NET ASSETS

June 30, 2004

	Current Tax Collection
ASSETS	
Cash and cash equivalents	\$ 12,562
Due from other funds	1,017
Due from other governmental units	<u>27,786</u>
TOTAL ASSETS	<u>\$ 41,365</u>
LIABILITIES	
Due to other funds	\$ 39,261
Due to other governmental units	552
Undistributed taxes	<u>1,552</u>
TOTAL LIABILITIES	<u>\$ 41,365</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Portland is located in Ionia County, Michigan and has a population of approximately 4,000. The City of Portland operates with a City Manager/Council form of government and provides services to its residents in many areas including general government, law enforcement, highways and streets, human services, and utilities services.

The City has five (5) City Council members who are elected at large for overlapping two (2) or four (4) year terms. The Council elects two (2) of its members to serve as Mayor and Mayor Pro-Tem. The Council appoints the City Manager, City Clerk, Finance Director/Treasurer, and Assessor.

The financial statements of the City have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to city governments. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement 14, The Financial Reporting Entity; and Statement on Michigan Governmental Accounting and Auditing No. 5, these financial statements present the financial activities of the City of Portland (primary government) and its component unit. Blended component units, although legally separate entities, are, in substance, part of the City's operations and so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City.

2. Joint Venture

The City participates in the following activity which is considered to be a joint venture in relation to the City, due to the formation of an organization by contractual agreement between two (2) or more participants that maintain joint control, financial interest, and financial responsibility.

Portland Area Municipal Authority - The City is a member of the Portland Area Municipal Authority (PAMA), which is a joint venture between the City of Portland and the Townships of Portland and Danby. The City appoints two (2) of the five (5) members of the governing board. PAMA is charged with the responsibility of acquiring, financing, equipping, and improving an emergency services building for use by the participating municipalities.

The constituent municipalities are responsible for their share of the costs incurred by PAMA according to the following percentages:

City of Portland	40%
Portland Township	40
Danby Township	20

The financial activities of PAMA are accounted for and reported separately from the participating units. Separate audited financial statements for the year ended December 31, 2003, are available at PAMA's administrative offices. As of December 31, 2003, PAMA had a fund balance of \$1,935.

3. Discretely Presented Component Unit

The component unit is reported in a separate column to emphasize that, while legally separate, the City remains financially accountable for this entity or the nature and significance of the relationship between the entity and the City is such that exclusion of the entity would render the financial statements misleading or incomplete. The financial statements contain the following discretely presented component unit:

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Discretely Presented Component Unit - continued

Downtown Development Authority - A majority of the members of the governing board of the Downtown Development Authority are appointed by the City Council. The City also has the ability to significantly influence operations of the Downtown Development Authority.

4. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the primary government and its component unit as a whole. All non-fiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the government-wide statements). For the most part, interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities presents the direct functional expenses of the primary government and its component unit and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the City's individual major funds and aggregated nonmajor funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major individual enterprise funds are reported as separate columns in the fund financial statements.

The major funds of the City are:

- a. The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.
- b. The City Income Tax Fund is used to account for the revenue from income tax collection. The City income tax was approved by voters for the purpose of funding street improvements.
- c. The Local Street Fund is used to account for financial resources that are used for repairs and maintenance of the City's streets.
- d. The DNR Grant Fund is used to account for the financial resources that are used for various capital projects. In the current year this fund is being used to account for the Kent Street Bridge Relocation project.
- e. The Electric Light and Power System Fund is used to account for the operations required to provide electric services to the general public, the costs (expenses, including depreciation) are financed or recovered primarily through user charges.

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Basis of Presentation - continued

- f. The Sewage Disposal System Fund is used to account for the operations required to provide sewer services to the general public, the costs (expenses, including depreciation) are financed or recovered primarily through user charges.
- g. The Water System Fund is used to account for the operations required to provide water services to the general public, the costs (expenses, including depreciation) are financed or recovered primarily through user charges.

5. Measurement Focus

The government-wide and proprietary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

There is no measurement focus for Agency Funds since assets equal liabilities.

6. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

All governmental and similar trust funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are special assessments and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

All proprietary and similar trust funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Private-sector standards of accounting and financial reporting issued to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. Basis of Accounting - continued

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. If/when both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

7. Budgets and Budgetary Accounting

The General and Special Revenue Fund budgets shown as required supplementary information were prepared on the same modified accrual basis used to reflect actual results. The City employs the following procedures in establishing the budgetary data reflected in the financial statements.

- a. On the council meeting date nearest to the third Monday in April, the City Manager submits to City Council the proposed operating budgets for the fiscal year commencing the following July 1. The operating budgets include proposed expenditures and resources to finance them.
- b. A Public Hearing is conducted to obtain taxpayers' comments.
- c. Prior to the second regular council meeting in May, the budget is legally enacted through passage of a resolution.
- d. The budget is legally adopted at the activity level for the General Fund and total expenditure level for the Special Revenue Fund; however, they are maintained at the account level for control purposes.
- e. The City does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds. Appropriations unused at June 30 are not carried forward to the following fiscal year.
- f. Budgeted amounts are reported as originally adopted or amended by the City Council during the year. Individual amendments were appropriately approved by the City Council as required.

8. Cash and Cash Equivalents

Cash and cash equivalents consist of checking, savings, money market, certificates of deposit with a maturity from date of purchase of 90 days or less, and pooled investment fund accounts. The cash equivalents are recorded at cost, which approximates market value.

9. Due from Other Governmental Units

Due from other governmental units consists of amounts due from the State of Michigan for various payments and grants and accounts receivable for charges for services provided to local governmental units.

10. Receivables

Receivables consist of amounts due related to charges for services, interest receivable, and other amounts owed to the City at year-end.

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

11. Property Tax

The City of Portland bills and collects its own property taxes and also taxes for other governmental units. The City's property tax revenue recognition policy and related tax calendar disclosures are highlighted in the following paragraph:

Property taxes are levied by the City of Portland on July 1 and December 1 and are payable without penalty through September 30 and February 14, respectively. The July 1 levy is composed of the City's millage, assessments, and school taxes. The December 1 levy is composed of county and school taxes. All real property taxes not paid to the City by March 1 are turned over to the Ionia County Treasurer for collection. The Ionia County Treasurer purchases the receivables of all taxing districts on any delinquent real property taxes. Delinquent personal property taxes receivable are retained by the City for subsequent collection. Collections and remittances of all taxes are accounted for in the Current Tax Collections Agency Fund. City property tax revenues are recognized as revenues in the fiscal year levied.

The City is permitted by charter to levy taxes up to 15 mills (\$15 per \$1,000 of taxable valuation) for general governmental services other than the payment of Debt Service Fund expenditures. For the year ended June 30, 2004, the City levied 13.8408 mills per \$1,000 of taxable valuation for general governmental services, which includes 1.000 mills for local streets. The total taxable value for the 2003 levy for property within the City was \$75,507,490.

12. Income Tax Revenues

In accordance with GASB Statement No. 22, Accounting for Taxpayer - Assessed Tax Revenues in Governmental Funds, the City has recognized taxpayer-assessed taxes, net of estimated refunds, as revenue in the accounting period in which they become susceptible to accrual (i.e., measurable and available to finance expenditures of the fiscal period). The City has calculated this amount based on the income tax collections made within 60 days after year end that relate to the prior years. Estimated refunds of these amounts are considered to be immaterial.

13. Inventories

The cost of inventory items in governmental funds is recorded as an expenditure at the time of purchase. Inventories in the Enterprise Funds consist of Electric, Light and Power and Water System supplies which are stated at cost on a first-in/first-out basis.

14. Accrued Compensated Absences

City employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is paid for accumulated vacation days up to the equivalent of 10 days of vacation. Employees are not paid for accumulated sick leave.

For governmental funds, the cost of accumulated vacation along with the related payroll taxes expected to be paid in the next 60 days is recorded as a fund liability, and amounts expected to be paid after 60 days are recorded only in the government-wide financial statements. For proprietary funds, the cost is recorded as a fund liability when incurred.

15. Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**15. Interfund Transactions - continued**

The Internal Service Funds (Motor Pool, Administrative Services) record charges for services provided to various City departments and funds as operating revenue. All City funds record these payments as operating expenditures/expenses.

16. Capital Assets

Capital assets include buildings and equipment and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities column. Capital assets are those with an initial individual cost of \$5,000 or more and an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and additions	30 - 40 years
Electric, Water and Sewer systems	25 - 50 years
Machinery and equipment	5 - 40 years
Infrastructure - streets and bridges	30 years
Land improvements	20 years
Downtown improvements	20 years

17. Deferred Revenue

Deferred revenue consists of amounts related to special assessments receivable in future periods. None of these amounts are deferred in the government-wide financial statements.

18. Long-term Liabilities

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements and proprietary fund types when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in a Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

19. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

20. Federal Programs

Federal Programs are accounted for in the funds to which the programs pertain. The City has not integrated its Single Audit Reports and financial data as part of the financial statements. The Single Audit reports and financial data will be issued under separate cover as supplementary information to the financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

21. Accounting Change

As of July 1, 2003, the City implemented the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments (Statement) along with all related statements and interpretations. Certain significant changes in the Statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations has been included.
- Government-wide financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the City's activities have been provided. A reconciliation is presented between the fund level (modified accrual) and government-wide (full accrual) statements since their measurement focus is not the same.
- Capital assets reported on the statement of net assets include assets in the amount of \$2,381,046, which were previously reported in the General Fixed Assets Account Group. The government-wide statement of activities reflects depreciation expenses on the City's capital assets.
- Long-term obligations reported on the statement of net assets include \$78,361 of compensated absences and bonds payable, which were previously reported in the government-wide statements.
- The governmental fund financial statements focus on major funds rather than fund types.

NOTE B: CASH AND CASH EQUIVALENTS

The City deposits consist of a common checking account and various savings, money market, checking, and pooled investment fund accounts maintained by individual funds and are reported as cash and cash equivalents in the financial statements.

In accordance with Michigan Compiled Laws, the City is authorized to invest in the following investment vehicles:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146.
- c. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
- d. The United States government or federal agency obligations repurchase agreements.
- e. Bankers' acceptances of United States banks.

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

- f. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143 to secure deposits of State funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Deposits

As of June 30, 2004, the carrying amounts and bank balances for each type of bank account are as follows:

<u>ACCOUNT TYPE</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
PRIMARY GOVERNMENT		
Checking	\$ 989,713	\$ 990,678
Savings	<u>1,011,026</u>	<u>1,034,748</u>
Total Primary Government	2,000,739	2,025,426
COMPONENT UNIT		
Checking	<u>290,813</u>	<u>293,976</u>
TOTAL REPORTING ENTITY	<u>\$ 2,291,552</u>	<u>\$ 2,319,402</u>

The primary government cash and cash equivalents caption on the basic financial statements included \$989 of imprest cash.

Deposits of the City are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the City. As of June 30, 2004, the City accounts were insured by the FDIC for \$515,383 and the amount of \$1,804,019 was uninsured and uncollateralized.

Pooled Investment Funds

As of June 30, 2004, the carrying amounts and market values of the pooled investment funds were as follows:

	<u>Carrying Amount</u>	<u>Market Value</u>
PRIMARY GOVERNMENT	<u>\$ 2,690,892</u>	<u>\$ 2,693,670</u>

These funds are not categorized at a risk level because they are not evidenced by securities that exist in physical or book form.

Due to higher cash flow at certain periods during the year, the amount the City held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peaks periods than at year-end.

City of Portland

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

The cash and cash equivalents and investments referred to above have been reported in either the cash and cash equivalents or investments captions on the basic financial statements, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of June 30, 2004:

	<u>Primary Government</u>	<u>Component Unit</u>	<u>Fiduciary Funds</u>	<u>Reporting Entity</u>
Cash and cash equivalents	\$ 4,177,789	\$ 285,707	\$ 12,562	\$ 4,476,058
Cash and cash equivalents - restricted	<u>502,269</u>	<u>5,106</u>	<u>-</u>	<u>507,375</u>
	<u>\$ 4,680,058</u>	<u>\$ 290,813</u>	<u>\$ 12,562</u>	<u>\$ 4,983,433</u>

NOTE C: CASH AND CASH EQUIVALENTS - RESTRICTED

The following summarizes the restricted cash and cash equivalents as of June 30, 2004:

	<u>Customer Deposits</u>	<u>Debt Retirement</u>	<u>Other</u>	<u>Total</u>
Enterprise Funds	\$ 151,656	\$ 177,919	\$ 172,694	\$ 502,269
Component Unit Fund	<u>-</u>	<u>5,106</u>	<u>-</u>	<u>5,106</u>
	<u>\$ 151,656</u>	<u>\$ 183,025</u>	<u>\$ 172,694</u>	<u>\$ 507,375</u>

NOTE D: INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables at June 30, 2004, are as follows:

Due to General Fund from:	
City income tax fund	\$ 13,378
Local street fund	3,828
Component unit fund	15,000
Fiduciary fund	<u>39,240</u>
	<u>\$ 71,446</u>
Due to Local Street Fund from:	
City income tax fund	\$ 75,149
Nonmajor governmental fund	<u>14,124</u>
	<u>\$ 89,273</u>
Due to nonmajor governmental funds from:	
City income tax fund	\$ 25,525
Fiduciary fund	<u>21</u>
	<u>\$ 25,546</u>
Due to fiduciary funds from:	
Local street fund	<u>\$ 1,017</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE D: INTERFUND RECEIVABLES AND PAYABLES - CONTINUED

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

NOTE E: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds, business type funds, and the component unit have been eliminated.

Transfers to General fund from:	
Nonmajor governmental funds	\$ 61,191
Electric light and power system fund	33,950
Sewage disposal system fund	23,300
Water system fund	23,300
Internal service funds	<u>1,515</u>
	<u>\$ 143,256</u>
Transfers to Local streets fund from:	
City income tax fund	<u>\$ 129,906</u>
Transfers to nonmajor governmental funds from:	
General fund	<u>\$ 39,793</u>
Transfers to Water system fund from:	
City income tax fund	<u>\$ 2,295</u>
Transfers to Sewage disposal system fund from:	
City income tax fund	<u>\$ 3,232</u>

NOTE F: ADVANCES RECEIVABLE AND PAYABLE

The following schedule details primary government advances at June 30, 2004:

	<u>Advance To</u>	<u>Advance From</u>
Primary Government		
General fund	\$ 64,000	\$ -
Nonmajor governmental funds	7,704	-
Water system fund	26,548	-
Internal service funds	<u>-</u>	<u>98,252</u>
	<u>\$ 98,252</u>	<u>\$ 98,252</u>

The advances were used to finance operations.

City of Portland

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE G: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004 was as follows:

Primary Government

	Restated Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Governmental activities				
Land (not depreciated)	\$ 1,075,920	\$ -	\$ -	\$ 1,075,920
Buildings and additions	349,955	21,766	-	371,721
Equipment and furniture	1,360,146	84,017	-	1,444,163
Infrastructure - streets and bridges	<u>6,734,860</u>	<u>1,228,520</u>	<u>-</u>	<u>7,963,380</u>
Totals at historical cost	9,520,881	1,334,303	-0-	10,855,184
Less accumulated depreciation for:				
Buildings and additions	(49,271)	(11,169)	-	(60,440)
Equipment and furniture	(519,218)	(135,531)	-	(654,749)
Infrastructure - streets and bridges	<u>(2,037,241)</u>	<u>(224,495)</u>	<u>-</u>	<u>(2,261,736)</u>
Total accumulated depreciation	<u>(2,605,730)</u>	<u>(371,195)</u>	<u>-0-</u>	<u>(2,976,925)</u>
Capital assets, net	<u>\$ 6,915,151</u>	<u>\$ 963,108</u>	<u>\$ -0-</u>	<u>\$ 7,878,259</u>

Depreciation expense was charged to the following governmental activities:

General government	\$ 121,310
Public safety	105,994
Public works	66,937
Health and welfare	41,063
Recreation and cultural	<u>35,891</u>
Total depreciation expense	<u>\$ 371,195</u>

	Restated Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Business-type activities (Electric Light and Power System)				
Land (not depreciated)	\$ 13,800	\$ -	\$ -	\$ 13,800
Buildings	2,119,499	-	-	2,119,499
Transmission and disbursement	4,055,803	404,817	-	4,460,620
Equipment	<u>111,286</u>	<u>39,877</u>	<u>-</u>	<u>151,163</u>
Total at historical cost	6,300,388	444,694	-0-	6,745,082
Less accumulated depreciation for:				
Buildings	(358,395)	(45,818)	-	(404,213)
Transmission and disbursement	(1,048,887)	(125,021)	-	(1,173,908)
Equipment	<u>(3,572)</u>	<u>(7,208)</u>	<u>-</u>	<u>(10,780)</u>
Total accumulated depreciation	<u>(1,410,854)</u>	<u>(178,047)</u>	<u>-0-</u>	<u>(1,588,901)</u>
Capital assets, net	<u>\$ 4,889,534</u>	<u>\$ 266,647</u>	<u>\$ -0-</u>	<u>\$ 5,156,181</u>

City of Portland

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE G: CAPITAL ASSETS - CONTINUED

	Restated Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Business-type activities (Sewage Disposal System)				
Land (not depreciated)	\$ 11,003	\$ -	\$ -	\$ 11,003
Buildings	605,399	-	-	605,399
Sewage Disposal System	1,203,633	-	-	1,203,633
Equipment	<u>5,500</u>	<u>37,953</u>	<u>-</u>	<u>43,453</u>
Total at historical cost	1,825,535	37,953	-0-	1,863,488
Less accumulated depreciation for:				
Buildings	(447,494)	(15,810)	-	(463,304)
Sewage Disposal System	(313,766)	(40,121)	-	(353,887)
Equipment	<u>(2,750)</u>	<u>(2,198)</u>	<u>-</u>	<u>(4,948)</u>
Total accumulated depreciation	<u>(764,010)</u>	<u>(58,129)</u>	<u>-0-</u>	<u>(822,139)</u>
Capital assets, net	<u>\$ 1,061,525</u>	<u>\$ (20,176)</u>	<u>\$ -0-</u>	<u>\$ 1,041,349</u>
Business-type activities (Water System)				
Land (not depreciated)	\$ 3,500	\$ -	\$ -	\$ 3,500
Water System	2,281,995	-	-	2,281,995
Construction in progress (not depreciated)	186,228	638,439	-	824,667
Equipment	<u>24,448</u>	<u>16,824</u>	<u>-</u>	<u>41,272</u>
Total at historical cost	2,496,171	655,263	-0-	3,151,434
Less accumulated depreciation for:				
Water System	(792,756)	(52,640)	-	(845,396)
Equipment	<u>(15,076)</u>	<u>(1,847)</u>	<u>-</u>	<u>(16,923)</u>
Total accumulated depreciation	<u>(807,832)</u>	<u>(54,487)</u>	<u>-0-</u>	<u>(862,319)</u>
Capital assets, net	<u>\$ 1,688,339</u>	<u>\$ 600,776</u>	<u>\$ -0-</u>	<u>\$ 2,289,115</u>
Component Unit (DDA)				
Downtown improvements	\$ 69,421	\$ 85,895	\$ -	\$ 155,316
City Hall building	<u>2,601,000</u>	<u>-</u>	<u>-</u>	<u>2,601,000</u>
Total at historical cost	2,670,421	85,895	-0-	2,756,316
Less accumulated depreciation for:				
Downtown improvements	(2,666)	(3,470)	-	(6,136)
City Hall building	<u>(65,025)</u>	<u>(65,025)</u>	<u>-</u>	<u>(130,050)</u>
Total accumulated depreciation	<u>(67,691)</u>	<u>(68,495)</u>	<u>-0-</u>	<u>(136,186)</u>
Capital assets, net	<u>\$ 2,602,730</u>	<u>\$ 17,400</u>	<u>\$ -0-</u>	<u>\$ 2,620,130</u>

City of Portland

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE H: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portion) of the City for the year ended June 30, 2004.

	Restated Balance <u>July 1, 2003</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>June 30, 2004</u>	Amounts Due Within <u>One Year</u>
PRIMARY GOVERNMENT					
Governmental activities					
Special Assessment Limited					
Tax Bonds Payable	\$ 75,000	\$ -	\$ 5,000	\$ 70,000	\$ 5,000
Capital Leases Payable	53,217	-	12,637	40,580	13,660
Notes Payable	134,149	-	41,101	93,048	43,401
Accumulated Compensated Absences	<u>3,361</u>	<u>44,691</u>	<u>-</u>	<u>48,052</u>	<u>38,442</u>
	265,727	44,691	58,738	251,680	100,503
Business type activities					
Electric Light and Power System					
1993 Revenue Bonds	200,000	-	95,000	105,000	105,000
1994 Revenue Bonds	520,000	-	10,000	510,000	10,000
2002 Note Payable	215,000	-	60,000	155,000	60,000
Sewage Disposal System					
1995 Revenue Bonds	235,000	-	15,000	220,000	15,000
Water System					
2004 Water System Bonds	<u>-</u>	<u>674,422</u>	<u>-</u>	<u>674,422</u>	<u>-</u>
	<u>1,170,000</u>	<u>674,422</u>	<u>180,000</u>	<u>1,664,422</u>	<u>190,000</u>
TOTAL PRIMARY GOVERNMENT	1,435,727	719,113	238,738	1,916,102	290,503
COMPONENT UNIT FUND					
Downtown Development Authority					
General Obligation Bonds	<u>2,080,000</u>	<u>-</u>	<u>90,000</u>	<u>1,990,000</u>	<u>95,000</u>
	<u>\$ 3,515,727</u>	<u>\$ 719,113</u>	<u>\$ 328,738</u>	<u>\$ 3,906,102</u>	<u>\$ 385,503</u>

Significant details regarding outstanding long-term debt (including current portion) are presented below:

PRIMARY GOVERNMENT

Special Assessment Limited Tax Bonds Payable (payable from Debt Service Fund)

The City issued Special Assessment Limited Tax Bonds for purposes of defraying the cost of installing portions of the sanitary sewer system in the Market and Canal Street area. The principal and interest requirements on these bonds are to be paid out of special assessments to be made against the benefited properties. These bonds are also backed by the full faith and credit of the City of Portland.

The following summarizes the significant details regarding this bond issue.

\$120,000 Special Assessment Limited Tax Bonds Series 1995 dated May 1, 1995, due in annual installments ranging from \$5,000 to \$15,000 through December 1, 2014, with interest ranging from 5.50 to 6.25 percent, payable semi-annually.

\$ 70,000

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE H: LONG-TERM DEBT - CONTINUED

PRIMARY GOVERNMENT - CONTINUED

Capital Leases (payable from General Fund)

The City has entered into a lease purchase agreement to finance the acquisition of a mailer machine. The lease agreement qualifies as a capital lease for accounting purposes (title transfers at end of lease term at bargain price) and, therefore, has been recorded at the present value of future minimum lease payments as of the date of inception. The cost of equipment acquired under the lease purchase agreement amounted to \$7,276. The lease is due in monthly installments of \$178, including interest at 16.3 percent, through October 29, 2006.

\$ 4,125

The City has entered into a lease purchase agreement to finance the acquisition of audio/visual equipment. The lease agreement qualifies as a capital lease for accounting purposes (title transfers at end of lease term at bargain price) and, therefore, has been recorded at the present value of future minimum lease payments as of the date of inception. The cost of equipment acquired under the lease purchase agreement amounted to \$119,927, \$60,000 of which was financed. The lease is due in monthly installments of \$1,181, including interest at 6.75 percent, through April 25, 2007.

36,455\$ 40,580Notes Payable (payable from Internal Service Fund)

\$200,000 Note payable, dated September 15, 1999, due in semi-annual installments of \$17,495 through September 15, 2006, including interest at 5.57 percent for a fire truck costing \$208,159, issued in accordance with Public Act 99 of 1933.

\$ 80,515

\$35,740 Note payable, dated August 28, 2001, due in annual installments of \$12,876 through August 28, 2004, including interest at 3.99 percent for an ambulance costing \$105,740, issued in accordance with Public Act 99 of 1933.

12,533\$ 93,048Electric Light and Power System Revenue Bonds

The City issued two (2) series of Electric Revenue Bonds for purposes of financing improvements and acquisition and installation of equipment related to the Electric Light and Power System. The principal and interest requirements on these bonds are to be paid solely from the net revenues of the utility system.

The following summarizes the significant details regarding these bond issues:

\$800,000 Electric Revenue Bonds Series 1993 dated September 1, 1993, due in an annual installment of \$105,000 on August 1, 2004, with interest at 5.30 percent.

\$ 105,000

\$600,000 Electric Revenue Bonds Series 1994 dated December 1, 1994, due in annual installments ranging from \$10,000 to \$100,000 through August 1, 2009, with interest ranging from 6.50 to 7.00 percent, payable semi-annually.

510,000\$ 615,000

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE H: LONG-TERM DEBT - CONTINUEDElectric Light and Power System Note Payable Agreement

\$300,000 Note Payable, dated February 22, 2002, due in monthly installments of \$5,000 through February 2007, with no interest due. \$ 155,000

Sewage Disposal System Revenue Bonds

The City issued Wastewater Revenue Bonds for purposes of installing portions of the sanitary sewer system in the Market and Canal Street area. The principal and interest requirements on these bonds are to be paid solely from the net revenues of the sewage disposal system.

The following summarizes the significant details regarding this bond issue:

\$300,000 Wastewater Revenue Bonds Series 1995 dated May 1, 1995, due in annual installments ranging from \$15,000 to \$30,000 through December 1, 2014, with interest ranging from 5.6 to 6.35 percent, payable semi-annually. \$ 220,000

Water System Bonds

\$1,450,000 Water System Bonds dated September 15, 2003, maturity of which is not yet known. The City draws on the bonds as project expenditures are submitted. At project completion a maturity schedule will be set. Interest on the outstanding balance of 2.5 percent is payable semi-annually. Due to the unknown maturity schedule, it is not possible to anticipate the amount of principal and interest that will be due each year. \$ 674,422

COMPONENT UNIT - DISCRETELY PRESENTED

General Obligation Bonds

The City of Portland Downtown Development Authority (a component unit) issued Limited Tax General Obligation Downtown Development Bonds for purposes of financing construction and improvements outlined in the Downtown Development and Financing Plan along with the construction of a new City Hall. The principal and interest requirements on these bonds are to be paid from the portion of property tax levies related to the Downtown Development Authority districts. These bonds are also backed by the full faith and credit of the City of Portland.

The following summarizes the significant details regarding these bond issues:

\$275,000 Limited Tax General Obligation Downtown Development Bond dated October 1, 1994, due in annual installments ranging from \$25,000 to \$30,000 through June 1, 2008, with interest ranging from 6.25 to 6.40 percent, payable semi-annually. \$ 110,000

\$995,000 Limited Tax General Obligation Downtown Development Bond dated June 1, 2001, due in annual installments ranging from \$25,000 to \$125,000 through October 1, 2016, with interest ranging from 4.10 to 6.00 percent, payable semi-annually. 950,000

\$1,005,000 Limited Tax General Obligation Downtown Development Bonds dated August 22, 2001, due in annual installments ranging from \$45,000 to \$100,000 through October 1, 2016, with interest of 4.75 percent, payable semi-annually. 930,000

\$ 1,990,000

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE H: LONG-TERM DEBT - CONTINUEDAccrued Compensated Absences

Individual employees have vested rights upon termination of employment to receive payments for unused vacation. The dollar amounts of these vested rights including related payroll taxes, which have been accrued on the government-wide financial statements. The total liability amounted to approximately \$102,494 at June 30, 2004. Of this amount, \$11,718, \$4,071, \$34,483, and \$4,170 are shown as accrued liabilities within the General, Special Revenue, Enterprise, and Internal Service Funds, respectively, in accordance with criteria disclosed in Note A.

The annual requirements to pay the debt principal and interest outstanding for the Bonds and Notes are as follows:

Primary Government

Year Ending June 30,	<u>Revenue Bonds</u>		<u>Special Assessment Limited Tax Bonds</u>		<u>Notes Payable</u>		<u>Leases Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 130,000	\$ 50,115	\$ 5,000	\$ 4,030	\$ 103,401	\$ 4,615	\$ 13,660	\$ 2,650
2006	115,000	42,860	5,000	3,758	92,636	2,353	14,779	1,530
2007	115,000	35,348	5,000	3,480	52,011	484	12,141	381
2008	115,000	27,720	5,000	3,198	-	-	-	-
2009	120,000	19,828	5,000	2,910	-	-	-	-
2010-2014	210,000	31,276	30,000	9,914	-	-	-	-
2015-2017	30,000	953	15,000	469	-	-	-	-
	<u>\$ 835,000</u>	<u>\$ 208,100</u>	<u>\$ 70,000</u>	<u>\$ 27,759</u>	<u>\$ 248,048</u>	<u>\$ 7,452</u>	<u>\$ 40,580</u>	<u>\$ 4,561</u>

Component Unit

Year Ending June 30,	<u>General Obligation Downtown Development Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 95,000	\$ 94,192
2006	125,000	88,410
2007	130,000	82,210
2008	135,000	75,752
2009	110,000	68,976
2010-2014	760,000	245,947
2015-2017	635,000	48,231
	<u>\$ 1,990,000</u>	<u>\$ 703,718</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE I: RETIREMENT PLANPlan Description

The City participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all eligible full-time employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by the City Council and by negotiation with the City's collective bargaining units. The plan requires no contribution from the employees.

Annual Pension Cost

For year ended June 30, 2004, the City's annual pension cost of \$220,277 for the plan was equal to the City's required and actual contribution. The estimated annual required contribution was determined as part of an actuarial valuation at December 31, 2001, using the entry actual age cost method. Actual contributions to the retirement system are based on actual reported monthly payroll. Significant actuarial assumptions used include (a) a 8.00 percent investment rate of return (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation (c) additional salary increases ranging from 0% to 4.2% per year depending on age, seniority and merit, and (d) assumption benefits will not increase after retirement.

The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a four (4) year period. The unfunded actuarial liability is being amortized as a level percentage of payroll over a period of thirty (30) years.

Three (3) year trend information

	Year Ended December 31,		
	<u>2001</u>	<u>2002</u>	<u>2003</u>
Actuarial value of assets	\$ 5,691,910	\$ 5,676,108	\$ 5,899,108
Actuarial accrued liability (AAL) (entry age)	7,020,514	7,600,670	7,808,293
Unfunded AAL	1,328,604	1,924,562	1,909,185
Funded ratio	81 %	75 %	76 %
Covered payroll	1,447,186	1,427,476	1,529,881
UAAL as a percentage of covered payroll	92 %	135 %	125 %

	Year Ended June 30,		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
Annual pension cost	\$ 236,172	\$ 211,174	\$ 220,277
Percentage of APC contributed	100 %	100 %	100 %
Net pension obligation	-	-	-

This trend information was obtained from the most recently issued actuarial reports.

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE J: DEFERRED COMPENSATION PLAN

The City of Portland offers its employees a deferred compensation plan sponsored by the ICMA Retirement Corporation, which is a compensation plan created in accordance with IRC Section #457. The plan, available to all City employees, permits them to defer a portion of their current salary until future years. The deferred compensation is not available to the employees until termination, retirement, death, or unforeseeable emergency. The City's deferred compensation program is administered by the ICMA Retirement Corporation.

Legislative change has been made to 457 plans which mandates that by no later than January 1, 1999, all existing 457 plan assets must be held in a custodial account, trust, or annuity contract for the benefit of participants and their beneficiaries.

Once a trust, custodial account, or annuity contract exists, assets are owned or held by the trust, custodian, or insurer for the exclusive benefit of participants and beneficiaries, and are not subject to the claims of public employers creditors nor can they be used by the public employer for any purpose other than the payment of benefits to these individuals participating in the plan or their designated beneficiaries. The ICMA Retirement Corporation elected to implement compliance with the new requirement effective January 1, 1998. The plan assets previously maintained in an Agency Fund are no longer reported by the City because the new legislation has eliminated the requirements that Section 457 plan assets legally remain the assets of the sponsoring government.

NOTE K: CODE ENFORCEMENT FINANCIAL INFORMATION

The City has elected to report the financial activities of the code enforcement department in the General Fund. The following is the required information as it relates to this department for the year ended June 30, 2004:

REVENUES	
Licenses and permits	
Permits	\$ 2,610
EXPENDITURES	
Salaries and wages	56,174
Fringe benefits	18,092
Contractual services	35,393
Supplies	1,525
Training	109
Printing	2,296
Vehicle rental	54
Other	<u>1,109</u>
TOTAL EXPENDITURES	<u>114,752</u>
EXCESS OF REVENUES	
(UNDER) EXPENDITURES	<u>\$(112,142)</u>

NOTE L: RISK MANAGEMENT

The City carries commercial insurance for the risk of loss due to workers' compensation claims.

The City also participates in a State pool, the Michigan Municipal League, with other municipalities for property, liability, bonding, and casualty losses. The pool is organized under Public Act 138 of 1982, as amended. The City has no liability for additional assessments based on the claims filed against the pool nor do they have any right to dividends.

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE M: FUND EQUITY RESERVES

Reserved fund balance and net assets are used to earmark a portion of fund equity to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use. Designated fund balance indicates that portion of the fund balance which the City has set aside for specific purposes.

The following are the various fund balance and net asset reserves as of June 30, 2004:

Fund Balances

Primary Government

Debt Service Fund

Special Assessment

Reserved for debt service	\$ 34,020
---------------------------	-----------

Special Revenue Funds

Local Street Fund

Reserved for Streets - Right of Way	9,183
-------------------------------------	-------

Major Street Fund

Reserved for Streets - Right of Way	5,871
-------------------------------------	-------

Permanent Fund

Cemetery Perpetual Care

Reserved for perpetual care	<u>123,042</u>
-----------------------------	----------------

Total primary government	<u>\$ 172,116</u>
--------------------------	-------------------

Component Unit Funds

Downtown Development Authority

Reserved for debt service	<u>\$ 5,106</u>
---------------------------	-----------------

The amount of \$5,106 represents the reserved amount of fund balance that the Authority has set aside for debt service in accordance with the requirements of bond resolutions.

Net Assets

Enterprise Funds

Electric Light and Power System

Utility reserve	<u>\$ 70,000</u>
-----------------	------------------

Section 12.9 of the City Charter created an electric utility reserve fund for the purpose of accumulating and holding such money which, in addition to insurance carried by the City, may be deemed by the Board of Light and Power to be prudently necessary for the protection, improvement, replacement, and extension of the City electric public utility plants and facilities.

Monies expended from the utility reserve fund must be replaced from the revenues of the City electric utility, and the amount in the fund must total the sum required by the charter (i.e., 10% of the undepreciated original cost of the electric utility of the City) before any electric utility revenues can be appropriated for other capital expenditures of the City.

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE N: RESTRICTED NET ASSETS

Restrictions of net assets shown in the government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following are the various net asset restrictions as of June 30, 2004:

PRIMARY GOVERNMENT	
Governmental Activities	
Debt Service	\$ 31,947
Capital Acquisition	
DNR Grant	\$ 20,831
Capital Improvement	2,088
MDEQ Wellhead Protection Grant	4,513
	<u>\$ 27,432</u>
Other Purposes	
City Income Tax	\$ 819,292
Major Street	177,779
Local Street	79,702
Cemetery Perpetual Care	123,042
	<u>\$ 1,199,815</u>
Business-type Activities	
Restricted for utilities	
Sewer System	\$ 70,000
Restricted for debt service	
Electric Light and Power	\$ 126,617
Sewer System	33,500
	<u>\$ 160,117</u>

NOTE O: PRIOR PERIOD ADJUSTMENTS

The following prior period adjustments were made during the year, which were the result of corrections of accounting errors. These adjustments were reported as changes to beginning fund balance or net assets. The effect on operations and other affected balances for the current and prior year are as follows:

	June 30,		
	<u>2004</u>	<u>2003</u>	<u>Description</u>
PRIMARY GOVERNMENT			
Governmental Activities			
General Fund			
Advances from other funds	\$ -	\$(80,000)	To correct understated advances
Revenues over (under) expenditures	-	(80,000)	
Fund balance - beginning	(80,000)	-	
City Income Tax Fund			
Taxes receivable	-	107,240	To correct understated taxes receivable
Revenues over (under) expenditures	-	107,240	
Fund balance - beginning	107,240	-	

City of Portland

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE O: PRIOR PERIOD ADJUSTMENTS - CONTINUED

	June 30,		
	<u>2004</u>	<u>2003</u>	<u>Description</u>
PRIMARY GOVERNMENT - CONTINUED			
Governmental activities - continued			
Nonmajor governmental funds			
Advances from other funds	\$ -	\$(12,704)	To correct overstated advances from other funds
Revenues over (under) expenditures	-	(12,704)	
Fund balance - beginning	(12,704)	-	
Internal Service Funds			
Administrative Services Fund			
Capital assets, net	-	(46,668)	To close out fund
Lease payable	-	5,468	
Accrued liabilities	-	9,383	
Change in net assets	-	(31,817)	
Net assets - beginning	(31,817)	-	
Motor Pool			
Advances to other funds	-	92,704	To correct understated advances to other funds
Change in net assets	-	92,704	
Net assets - beginning	92,704	-	
Capital assets, net	-	(204,138)	To correct overstated capital assets, net of accumulated depreciation
Change in net assets	-	(204,138)	
Net assets - beginning	(204,138)	-	
Business-type Activities			
Electric Light and Power Fund			
Capital assets, net	-	691,851	To correct understated capital assets, net of accumulated depreciation
Change in net assets	-	691,851	
Net assets - beginning	691,851	-	
Sewage Disposal System			
Capital assets, net	-	231,303	To correct understated capital assets, net of accumulated depreciation
Change in net assets	-	231,303	
Net assets - beginning	231,303	-	
Water System			
Capital assets, net	-	113,847	To correct understated capital assets, net of accumulated depreciation
Change in net assets	-	113,847	
Net assets - beginning	113,847	-	
COMPONENT UNIT			
Downtown Development Authority			
Revenues over (under) expenditures	-	(4,418)	To recognize understated prior year expenditures
Fund balance - beginning	(4,418)	-	
Due from other governmental units	-	25,000	To correct understated receivable
Revenues over (under) expenditures	-	25,000	
Fund balance - beginning	25,000	-	

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE P: POST-RETIREMENT HEALTH CARE BENEFITS

In addition to providing pension benefits, the City provides certain health care benefits for retired employees. Substantially all of the City's employees may become eligible for these benefits if they reach the normal retirement age of 55 with at least 25 years of credited service while working for the City. These benefits are provided until age 65, at which time the individuals are eligible for Medicare coverage.

The cost of retiree health care benefits is recognized as an expenditure as insurance premiums are paid. For the year ended June 30, 2004, those costs totaled \$18,344.

NOTE Q: RELIANCE ON FUNDING SOURCES**Downtown Development Authority (Component Unit)**

As a result of constitutional and statutory amendments related to school financing, the City of Portland Downtown Development Authority (Component Unit) is not able to capture as much tax increment revenue related to school property taxes as in the past. Also, the amount of school property taxes available to be captured has dramatically decreased.

The amount that can now be captured depends on whether the Authority has met certain criteria. The City of Portland Downtown Development Authority appears to have met the required criteria which will allow the Authority to capture school property taxes in an amount up to either the annual debt service requirements for both DDA general obligation debt issues or the non-school property taxes captured, whichever is less.

NOTE R: CONTRACT COMMITMENTS

The City has entered into various contracts relating to Canal Street improvements, Kent Street utility line work, and construction of a new water tower that were not completed at June 30, 2004. The total contractual commitments outstanding at June 30, 2004 totaled \$950,446. The City will be receiving State/Federal grants to complete the water tower. The Kent Street project will be financed with available funds from the Downtown Development Authority and City Income Tax Fund. The Canal Street project will be completed with available funds from the Water System Fund and the Local Street Fund.

NOTE S: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the body of the required supplementary information, the City's budgeted expenditures in the General and major Special Revenue Funds have been shown at the functional classification level. The approved budgets of the City have been adopted at the activity level for the General Fund and the total expenditure level for the Special Revenue Funds.

During the year ended June 30, 2004, the City incurred expenditures in the General Fund in excess of the amount appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
General government			
City manager	\$ 97,870	\$ 99,494	\$ 1,624

REQUIRED SUPPLEMENTARY INFORMATION

City of Portland

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2004

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes				
Property taxes	\$ 847,250	\$ 847,250	\$ 846,919	\$ (331)
Penalties and interest	1,650	1,650	2,566	916
Total taxes	848,900	848,900	849,485	585
Licenses and permits				
Cable television license	20,000	20,000	20,750	750
City licenses and permits	4,700	4,700	2,610	(2,090)
Total licenses and permits	24,700	24,700	23,360	(1,340)
Intergovernmental				
State				
Sales tax	504,770	504,770	477,606	(27,164)
Act 302 training funds	1,200	1,200	1,327	127
State liquor license	2,500	2,500	2,681	181
Total intergovernmental	508,470	508,470	481,614	(26,856)
Charges for services				
Fire protection - townships	129,500	129,500	146,125	16,625
Tax collection	32,100	32,100	33,742	1,642
Cemetery fees and lot sales	19,500	19,500	25,150	5,650
Administrative charges	268,457	268,457	268,476	19
Other fees	750	2,150	3,917	1,767
Total charges for services	450,307	451,707	477,410	25,703
Fines and forfeits				
Parking	1,500	1,500	1,915	415
District court	7,000	7,000	15,578	8,578
Other	2,000	2,000	4,943	2,943
Total fines and forfeits	10,500	10,500	22,436	11,936
Interest and rents	9,300	9,300	10,873	1,573
Other				
Donations	2,000	500	6,752	6,252
Reimbursements	-	30,600	43,171	12,571
Total other	2,000	31,100	49,923	18,823
TOTAL REVENUES	1,854,177	1,884,677	1,915,101	30,424

City of Portland

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2004

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES				
General government				
Council, boards, and commissions	\$ 14,732	\$ 14,732	\$ 13,962	\$ 770
Community promotions	120,742	151,242	146,884	4,358
City manager	97,870	97,870	99,494	(1,624)
Assessing services	46,565	46,565	39,282	7,283
Elections	13,610	13,610	1,787	11,823
City hall and grounds	61,250	86,250	65,965	20,285
General administrative	325,600	360,200	301,010	59,190
Cemetery operations	122,297	129,797	96,487	33,310
Total general government	802,666	900,266	764,871	135,395
Public safety				
Police department	581,615	581,615	541,556	40,059
Fire department	215,796	215,796	187,406	28,390
Code enforcement	129,330	129,330	114,752	14,578
Total public safety	926,741	926,741	843,714	83,027
Public works				
Street lighting	43,179	43,179	43,179	-0-
Health and welfare				
Ambulance service	31,259	31,259	31,259	-0-
Community and economic development				
Economic development	18,000	20,600	18,620	1,980
Recreation and cultural				
Parks department	177,090	177,090	143,029	34,061
TOTAL EXPENDITURES	1,998,935	2,099,135	1,844,672	254,463
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(144,758)	(214,458)	70,429	284,887

City of Portland

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2004

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
OTHER FINANCING SOURCES (USES)				
Residual equity transfers	\$ -	\$ -	\$ 42,706	\$ 42,706
Operating transfers in				
Electric Fund	33,950	33,950	33,950	-0-
Sewage Disposal System Fund	23,300	23,300	23,300	-0-
Water System Fund	23,300	23,300	23,300	-0-
Operating transfers out				
Recreation Fund	(10,000)	(10,000)	(10,000)	-0-
Portland Area Ambulance Fund	(27,000)	(47,000)	(47,000)	-0-
DNR Grant Fund	(23,000)	-	-	-0-
Capital Improvement Fund	-	(2,793)	(2,793)	-0-
TOTAL OTHER FINANCING SOURCES (USES)	20,550	20,757	63,463	42,706
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(124,208)	(193,701)	133,892	327,593
Fund balance, beginning of year	222,695	222,695	222,695	-0-
Prior period adjustment	-	-	(80,000)	(80,000)
Fund balance, end of year	\$ 98,487	\$ 28,994	\$ 276,587	\$ 247,593

City of Portland

City Income Tax Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2004

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	\$ 663,700	\$ 663,700	\$ 644,899	\$ (18,801)
Fines and forfeits	5,000	5,000	13,098	8,098
Interest	7,000	7,000	4,027	(2,973)
Other				
Special assessments	7,106	7,106	14,036	6,930
Other	-	-	98	98
TOTAL REVENUES	682,806	682,806	676,158	(6,648)
EXPENDITURES				
General government	126,300	126,300	126,311	(11)
EXCESS OF REVENUES OVER EXPENDITURES	556,506	556,506	549,847	(6,659)
OTHER FINANCING USES				
Operating transfers out	(245,700)	(405,282)	(135,433)	269,849
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES	310,806	151,224	414,414	263,190
Fund balance, beginning of year	297,638	297,638	297,638	-0-
Prior period adjustment	-	-	107,240	107,240
Fund balance, end of year	<u>\$ 608,444</u>	<u>\$ 448,862</u>	<u>\$ 819,292</u>	<u>\$ 370,430</u>

City of Portland

Local Street Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2004

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	\$ 65,910	\$ 65,910	\$ 66,134	\$ 224
Intergovernmental - State				
Gas and weight tax	65,000	65,000	74,524	9,524
METRO Act	-	-	9,183	9,183
Interest	1,200	1,200	1,022	(178)
Other				
Reimbursements	-	-	1,160	1,160
Other	-	-	35	35
TOTAL REVENUES	132,110	132,110	152,058	19,948
EXPENDITURES				
Public works				
Administrative	44,954	44,954	48,180	(3,226)
Construction	194,000	246,282	220,040	26,242
Maintenance	120,563	120,563	91,508	29,055
TOTAL EXPENDITURES	359,517	411,799	359,728	52,071
EXCESS OF REVENUES (UNDER) EXPENDITURES	(227,407)	(279,689)	(207,670)	72,019
OTHER FINANCING SOURCES				
Operating transfers in	212,000	251,282	129,906	(121,376)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES (UNDER) EXPENDITURES	(15,407)	(28,407)	(77,764)	(49,357)
Fund balance, beginning of year	157,466	157,466	157,466	-0-
Fund balance, end of year	\$ 142,059	\$ 129,059	\$ 79,702	\$ (49,357)

OTHER SUPPLEMENTARY INFORMATION

City of Portland
Nonmajor Governmental Funds
COMBINING BALANCE SHEET
June 30, 2004

	Special Revenue Funds		
	Major Street	Recreation Fund	Portland Area Ambulance
ASSETS			
Cash and cash equivalents	\$ 164,308	\$ 50,642	\$ 6,026
Accounts receivable	-	-	38,578
Special assessments receivable	-	-	-
Due from State	18,359	-	-
Due from other funds	-	-	-
TOTAL ASSETS	\$ 182,667	\$ 50,642	\$ 44,604
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 824	\$ 7,022	\$ (1,467)
Accrued liabilities	4,064	3,315	9,434
Deferred revenue	-	-	-
Due to other funds	-	-	-
Advances from other funds	-	-	7,704
TOTAL LIABILITIES	4,888	10,337	15,671
FUND BALANCES			
Reserved for			
Streets - Right of Way	5,871	-	-
Perpetual care	-	-	-
Debt service	-	-	-
Unreserved - undesignated	171,908	40,305	28,933
TOTAL FUND BALANCES	177,779	40,305	28,933
TOTAL LIABILITIES AND FUND BALANCES	\$ 182,667	\$ 50,642	\$ 44,604

Debt Service Fund	Capital Project Funds			Permanent Fund	Total Nonmajor Governmental Funds
Special Assessments Fund	Capital Improvement	Waterfront Redevelopment Grant	MDEQ Wellhead Protection Grant	Cemetery Perpetual Care	
\$ 24,811	\$ -	\$ -	\$ 4,513	\$ 123,042	\$ 373,342
-	-	-	-	-	38,578
20,324	-	-	-	-	20,324
-	-	-	-	-	18,359
23,458	2,088	-	-	-	25,546
<u>\$ 68,593</u>	<u>\$ 2,088</u>	<u>\$ -0-</u>	<u>\$ 4,513</u>	<u>\$ 123,042</u>	<u>\$ 476,149</u>
\$ 125	\$ -	\$ -	\$ -	\$ -	\$ 6,504
-	-	-	-	-	16,813
20,324	-	-	-	-	20,324
14,124	-	-	-	-	14,124
-	-	-	-	-	7,704
34,573	-0-	-0-	-0-	-0-	65,469
-	-	-	-	-	5,871
-	-	-	-	123,042	123,042
34,020	-	-	-	-	34,020
-	2,088	-	4,513	-	247,747
34,020	2,088	-	4,513	123,042	410,680
<u>\$ 68,593</u>	<u>\$ 2,088</u>	<u>\$ -0-</u>	<u>\$ 4,513</u>	<u>\$ 123,042</u>	<u>\$ 476,149</u>

City of Portland

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES

Year Ended June 30, 2004

	Special Revenue Funds		
	Major Street	Recreation Fund	Portland Area Ambulance
REVENUES			
Intergovernmental	\$ 226,008	\$ 19,507	\$ 147,401
Charges for services	-	79,027	155,650
Interest and rents	1,416	127	-
Other	2,184	407	4,433
TOTAL REVENUES	229,608	99,068	307,484
EXPENDITURES			
General government	-	-	-
Public works	173,092	-	-
Health and welfare	-	-	326,863
Recreation and cultural	-	124,043	-
Debt service	-	-	-
Capital outlay	-	-	-
TOTAL EXPENDITURES	173,092	124,043	326,863
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	56,516	(24,975)	(19,379)
OTHER FINANCING SOURCES (USES)			
Residual equity transfer	-	-	-
Transfers in	-	10,000	47,000
TOTAL OTHER FINANCING SOURCES (USES)	-0-	10,000	47,000
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	56,516	(14,975)	27,621
Fund balances, beginning of year	121,263	55,280	14,016
Prior period adjustment	-	-	(12,704)
Fund balances, end of year	\$ 177,779	\$ 40,305	\$ 28,933

Debt Service Fund	Capital Project Funds			Permanent Fund	
Special Assessments Fund	Capital Improvement	Waterfront Redevelopment Grant	MDEQ Wellhead Protection Grant	Cemetery Perpetual Care	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 392,916
-	-	-	-	-	234,677
2,067	-	-	-	-	3,610
2,104	-	-	-	5,500	14,628
4,171	-0-	-0-	-0-	5,500	645,831
-	200	200	200	-	600
-	-	-	-	-	173,092
-	-	-	-	-	326,863
-	-	-	-	-	124,043
9,548	-	-	-	-	9,548
-	15,515	38,309	-	-	53,824
9,548	15,715	38,509	200	-	687,970
(5,377)	(15,715)	(38,509)	(200)	5,500	(42,139)
-	-	(41,191)	-	-	(41,191)
-	2,793	-	-	-	59,793
-0-	2,793	(41,191)	-0-	-0-	18,602
(5,377)	(12,922)	(79,700)	(200)	5,500	(23,537)
39,397	15,010	79,700	4,713	117,542	446,921
-	-	-	-	-	(12,704)
<u>\$ 34,020</u>	<u>\$ 2,088</u>	<u>\$ -0-</u>	<u>\$ 4,513</u>	<u>\$ 123,042</u>	<u>\$ 410,680</u>

City of Portland

Internal Service Funds

COMBINING STATEMENT OF NET ASSETS

June 30, 2004

	Motor Pool	Administrative Services	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 280,852	\$ -	\$ 280,852
Accounts receivable	865	-	865
Total current assets	281,717	-0-	281,717
Noncurrent assets			
Advances to other funds	98,252	-	98,252
Capital assets, net	508,254	-	508,254
Total noncurrent assets	606,506	-0-	606,506
TOTAL ASSETS	888,223	-0-	888,223
LIABILITIES			
Current liabilities			
Accounts payable	6,680	-	6,680
Accrued liabilities	7,999	-	7,999
Current portion of notes payable	43,401	-	43,401
Total current liabilities	58,080	-0-	58,080
Long-term liabilities			
Notes payable	49,647	-	49,647
TOTAL LIABILITIES	107,727	-0-	107,727
NET ASSETS			
Invested in capital assets, net of related debt	415,206	-	415,206
Unrestricted	365,290	-	365,290
TOTAL NET ASSETS	\$ 780,496	\$ -0-	\$ 780,496

City of Portland

Internal Service Funds

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS

Year Ended June 30, 2004

	Motor Pool	Administrative Services	Total
OPERATING REVENUES			
User charges	\$ 254,740	\$ -	\$ 254,740
Other	2,882	-	2,882
TOTAL OPERATING REVENUES	257,622	-0-	257,622
OPERATING EXPENSES			
Salaries and wages	68,207	-	68,207
Fringe benefits	37,268	-	37,268
Contractual services	2,662	-	2,662
Supplies	39,452	-	39,452
Heat, light, and power	5,851	-	5,851
Communications	1,045	-	1,045
Insurance and bonds	25,563	-	25,563
Repairs and maintenance	30,786	-	30,786
Administrative services	26,760	-	26,760
Other	160	-	160
Depreciation	103,722	-	103,722
TOTAL OPERATING EXPENSES	341,476	-0-	341,476
OPERATING (LOSS)	(83,854)	-0-	(83,854)
NONOPERATING REVENUES (EXPENSES)			
Interest expense	(12,301)		(12,301)
Interest earned	6,834	-	6,834
TOTAL NONOPERATING REVENUES (EXPENSES)	(5,467)	-0-	(5,467)
(LOSS) BEFORE TRANSFERS	(89,321)	-0-	(89,321)
OTHER FINANCING (USES)			
Residual equity transfer	-	(1,515)	(1,515)
CHANGE IN NET ASSETS	(89,321)	(1,515)	(90,836)
Net assets, beginning of year	981,251	33,332	1,014,583
Prior period adjustments	(111,434)	(31,817)	(143,251)
Net assets, end of year	\$ 780,496	\$ -0-	\$ 780,496

City of Portland

Internal Service Funds

COMBINING STATEMENT OF CASH FLOWS

Year Ended June 30, 2004

	Motor Pool	Administrative Services	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers	\$ 257,622	\$ -	\$ 257,622
Cash paid to suppliers	(146,899)	(6,452)	(153,351)
Cash paid for employee benefits	(105,056)	(6,974)	(112,030)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	5,667	(13,426)	(7,759)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Residual equity transfer out	-	(1,515)	(1,515)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Payments of borrowing	(41,101)	-	(41,101)
Payments on advances	52,896	-	52,896
Purchase of capital assets	(39,685)	-	(39,685)
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(27,890)	-0-	(27,890)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest earned	6,834	-	6,834
Interest expense	(12,301)	-	(12,301)
NET CASH (USED) BY INVESTING ACTIVITIES	(5,467)	-0-	(5,467)
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(27,690)	(14,941)	(42,631)
Cash and cash equivalents, beginning of year	308,542	14,941	323,483
Cash and cash equivalents, end of year	<u>\$ 280,852</u>	<u>\$ -0-</u>	<u>\$ 280,852</u>
Reconciliation of operating (loss) to net cash provided (used) by operating activities			
Operating (loss)	\$ (83,854)	\$ -	\$ (83,854)
Adjustments to reconcile operating (loss) to net cash provided (used) by operating activities			
Depreciation	103,722	-	103,722
(Decrease) in accounts payable	(14,620)	(6,452)	(21,072)
Increase (Decrease) in accrued liabilities	419	(6,974)	(6,555)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 5,667</u>	<u>\$ (13,426)</u>	<u>\$ (7,759)</u>

City of Portland

Component Unit Fund

BALANCE SHEET - DOWNTOWN DEVELOPMENT AUTHORITY

June 30, 2004

ASSETS

Cash	\$ 285,707
Cash - restricted	<u>5,106</u>

TOTAL ASSETS	<u><u>\$ 290,813</u></u>
--------------	--------------------------

LIABILITIES AND FUND BALANCE

LIABILITIES

Due to primary government	\$ 15,000
---------------------------	-----------

FUND BALANCE

Reserved for debt service	5,106
Unreserved - undesignated	<u>270,707</u>

TOTAL FUND BALANCE	<u>275,813</u>
--------------------	----------------

TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 290,813</u></u>
------------------------------------	--------------------------

City of Portland

Component Unit Funds

RECONCILIATION OF THE BALANCE SHEET TO
THE STATEMENT OF NET ASSETS - DOWNTOWN DEVELOPMENT AUTHORITY

June 30, 2004

Total fund balance - governmental fund \$ 275,813

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 2,756,316	
Accumulated depreciation is	<u>(136,186)</u>	
Capital assets, net		2,620,130

Long-term liabilities are not due and payable in the current period
and therefore are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

Accrued interest payable	22,855	
General obligation bonds	<u>1,990,000</u>	
		<u>(2,012,855)</u>

Net assets of governmental activities \$ 883,088

City of Portland

Component Unit Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - DOWNTOWN DEVELOPMENT AUTHORITY

Year Ended June 30, 2004

REVENUES	
Taxes	\$ 241,028
Interest	810
Other	<u>17,132</u>
TOTAL REVENUES	258,970
EXPENDITURES	
Current	
Community and economic development	
Audit	700
Miscellaneous	5,592
Capital outlay	
Contracted services	45,015
Decorations and banners	8,380
Façade restoration	32,500
Debt service	
Principal	90,000
Interest and fiscal charges	<u>99,710</u>
TOTAL EXPENDITURES	<u>281,897</u>
EXCESS OF REVENUES (UNDER) EXPENDITURES	(22,927)
Fund balance, beginning of year	278,158
Prior period adjustments	<u>20,582</u>
Fund balance, end of year	<u><u>\$ 275,813</u></u>

City of Portland

RECONCILIATION OF THE STATEMENT OF REVENUES
EXPENDITURES, AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL
FUND TO THE STATEMENT OF ACTIVITIES - DOWNTOWN DEVELOPMENT AUTHORITY

Year Ended June 30, 2004

Net change in fund balance - governmental fund **\$ (22,927)**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 85,895	
Depreciation expense	<u>(68,495)</u>	
Excess of capital outlay over depreciation expense		17,400

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Bond principal retirements	90,000
----------------------------	--------

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued interest payable	<u>975</u>
--------------------------------------	------------

Change in net assets of governmental activities **\$ 85,448**

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA

Karen A. Roka, CPA
James A. Huguelet, CPA
Alan D. Panter, CPA
William I. Tucker IV, CPA
Kurt M. Lemmen, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

Member:
American Institute of
Certified
Public Accountants
and
Michigan Association of
Certified Public
Accountants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and
Members of City Council
City of Portland
Portland, Michigan

We have audited the financial statements of the City of Portland as of and for the year ended June 30, 2004, and have issued our report thereon dated September 22, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Portland's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one of more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Portland's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

We noted other matters involving the internal control over financial reporting that we have reported to the management of the City of Portland in a separate letter dated September 22, 2004.

This report is intended solely for the information and use of management and City Council of the City of Portland, Michigan, the Federal awarded agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 22, 2004

**City of Portland
Ionia County, Michigan**

**SUPPLEMENTARY INFORMATION
TO FINANCIAL STATEMENTS
(FEDERAL AWARDS)**

June 30, 2004

City of Portland

TABLE OF CONTENTS

June 30, 2004

	<u>Page</u>
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	1-2
SUPPLEMENTARY INFORMATION	
Schedule of Expenditures of Federal Awards	3
Notes to Schedule of Expenditures of Federal Awards	4
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	5-6
SCHEDULE OF FINDINGS	7
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	8

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA

Karen A. Roka, CPA
James A. Huguelet, CPA
Alan D. Panter, CPA
William I. Tucker IV, CPA
Kurt M. Lemmen, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

Member:
American Institute of
Certified
Public Accountants
and
Michigan Association of
Certified Public
Accountants

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Honorable Mayor and
Members of the City Council
City of Portland
Portland, Michigan

Compliance

We have audited the compliance of the City of Portland with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major Federal programs for the year ended June 30, 2004. The City of Portland's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of the City of Portland's management. Our responsibility is to express an opinion on the City of Portland's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the City of Portland's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Portland's compliance with those requirements.

In our opinion, the City of Portland complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of the City of Portland is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered the City of Portland's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Portland as of and for the year ended June 30, 2004, and have issued our report thereon dated September 22, 2004. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Portland's basic financial statements. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management and the City Council of the City of Portland, the Federal awarding agencies and pass-through entities is not intended to be, and should not be, used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 22, 2004

City of Portland, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2004

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass- Through Grantors Number</u>	<u>Program Award Amount</u>	<u>Current Year</u>	
				<u>Revenues</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF TRANSPORTATION					
Passed through Michigan Department of Transportation					
Transportation Enhancement Grants ^{(a) (b)}	20.205	ENH200100005	\$ 347,728	\$ 305,277	\$ 305,277
U.S. ENVIRONMENTAL PROTECTION AGENCY					
Passed through Michigan Department of Environmental Quality					
Drinking Water State Revolving Funds ^{(a) (b)}	66.468	7117-01	999,775	465,013	465,013
U.S. DEPARTMENT OF HOMELAND SECURITY					
Passed through Michigan State Police					
Hazard Mitigation Grant	97.039	FEMA-1346-DR-MI	<u>278,200</u>	<u>185,120</u>	<u>185,120</u>
			<u>\$ 1,617,503</u>	<u>\$ 955,410</u>	<u>\$ 955,410</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2004

NOTE A: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the City of Portland and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements, which are reconciled in Note B.

NOTE B: SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE

The following descriptions identified below as (a) - (b) represent explanations that cross reference to amounts on the Schedule of Expenditures of Federal Awards:

- (a) Reimbursements of these contracts are passed through the State. The amounts reported on the Schedule of Expenditures of Federal Awards represent the Federal portion of the respective amounts based on the following percentages of Federal participation:

<u>Program</u>	<u>CFDA Number</u>	<u>Percent</u>
Transportation Enhancement Grants	20.205	47
Drinking Water State Revolving Funds	66.468	69

- (b) Denotes program tested as "major program".

NOTE C: RECONCILIATION TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The following reconciles the Federal revenues reported in the June 30, 2004, basic financial statements to the expenditures of the City administered Federal programs reported on the Schedule of Expenditures of Federal Awards.

	<u>Federal/ State Revenue</u>	<u>Less: State Revenue</u>	<u>Other Adjustments</u>	<u>Federal Expenditures</u>
PRIMARY GOVERNMENT				
DNR Grant Fund	\$ 332,506	\$(27,229)	\$ -	\$ 305,277
Electric Light and Power Fund	185,120	-	-	185,120
Water System Fund	<u>-</u>	<u>-</u>	<u>465,013</u> ⁽¹⁾	<u>465,013</u>
	<u>\$ 517,626</u>	<u>\$(27,229)</u>	<u>\$ 465,013</u>	<u>\$ 955,410</u>

⁽¹⁾ Represents Federal revenue reported in the basic financial statements as bonds payable.

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA

Karen A. Roka, CPA
James A. Huguelet, CPA
Alan D. Panter, CPA
William I. Tucker IV, CPA
Kurt M. Lemmen, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

Member:
American Institute of
Certified
Public Accountants
and
Michigan Association of
Certified Public
Accountants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and
Members of the City Council
City of Portland
Portland, Michigan

We have audited the basic financial statements of the City of Portland as of and for the year ended June 30, 2004, and have issued our report thereon dated September 22, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Portland's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Portland's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

We noted other matters involving the internal control over financial reporting that we have reported to the management of the City of Portland in a separate letter dated September 22, 2004.

This report is intended solely for the information and use of management and the City Council of the City of Portland, the Federal awarding agencies and pass-through entities is not intended to be, and should not be, used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 22, 2004

City of Portland

SCHEDULE OF FINDINGS

Year Ended June 30, 2004

SUMMARY OF AUDITOR'S RESULTS

An unqualified opinion was issued on the basic financial statements. There were no reportable conditions disclosed by the audit of the basic financial statements. We noted no instances of noncompliance with laws, regulations, contracts, and grants that could have a direct and material affect on the basic financial statements.

An unqualified opinion was issued on compliance for major programs. We did not disclose any findings regarding internal controls or compliance related to the major programs tested.

The major programs tested to cover 50 percent of the total Federal expenditures were the Transportation Enhancement Grant (CFDA 20.205) and Drinking Water State Revolving Funds (CFDA 66.468). Total Federal expenditures for the year ended June 30, 2004, for the major programs were \$770,290, which is approximately 81 percent of total Federal expenditures. It was determined that the City did not qualify as a low-risk auditee.

The City had two (2) Type A programs, the Transportation Enhancement Grant (CFDA 20.205) and Drinking Water State Revolving Funds (CFDA 66.468). Programs of less than \$300,000 were determined to be Type B programs.

FINDINGS/NONCOMPLIANCE

Reportable Conditions Related to Internal Controls Over the Financial Statements.

None

Findings Related to Compliance with Requirements Applicable to the Financial Statements.

None

Findings Related to Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.

None

City of Portland

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2004

FINDINGS/NONCOMPLIANCE

Reportable Conditions Related to Internal Controls Over the Financial Statements.

No prior reportable conditions.

Findings Related to Compliance with Requirements Applicable to the Financial Statements.

No prior audit findings.

Findings Related to Compliance with Requirements Applicable to Federal Awards and on Internal Control Over Compliance in Accordance with OMB Circular A-133.

No prior audit findings.

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA

Karen A. Roka, CPA
James A. Huguelet, CPA
Alan D. Panter, CPA
William I. Tucker IV, CPA
Kurt M. Lemmen, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

Member:
American Institute of
Certified
Public Accountants
and
Michigan Association of
Certified Public
Accountants

MANAGEMENT LETTER

To the Honorable Mayor and
Members of the City Council
City of Portland
Portland, Michigan

As you know, we have recently completed our audit of the records of the City of Portland, Michigan as of and for the year ended June 30, 2004. In connection with the audit, we feel that certain changes in your accounting and administrative procedures would be helpful in improving management's control and the operational efficiency of the accounting and administrative functions. These suggestions are a result of our evaluation of the internal control and our discussions with management.

1. The City should research past capital projects for inclusion in capital asset records.

During the implementation of Governmental Accounting Standards Board Statement 34 (GASB 34) for the current year, the City Treasurer undertook a large re-evaluation of the City's capital assets records which resulted in improved listings of those assets and related depreciation, as required by GASB 34. Because of the significant investment the City has made over the years in various improvement projects, it was decided that certain past infrastructure assets would be included in the financial statements for the first time even though GASB 34 does not require them to be included for a city of Portland's size.

We are aware, however, of other projects that have not been included in the City's financial statements such as the river trail and waterfront improvements. There are possibly other large projects that have not been included as well. These would be mostly grant funded projects as opposed to those funded by City income tax funds or enterprise funds, which are all currently included in the financial statements.

We suggest that the City research past capital projects for inclusion in capital asset records. If this is done, the statements will better reflect the significant capital investments that have been made in the City.

2. The internal controls related to the Downtown Development Authority should be evaluated and revised.

During the course of our audit, we noted several areas of operation of the Downtown Development Authority that provide opportunities for improvement in internal control. Specifically, we noted the following:

- Receipts collected by the DDA are not always transmitted to the City's Treasurer for deposit in a timely manner. In some instances, the receipts were collected several months prior to being transmitted to the Treasurer.
- Receipts collected by the DDA are often transmitted to the City's Treasurer without supporting documentation. Supporting documentation or other correspondence, such as a receipts log, would provide the City's Treasurer with a means of classifying the receipts into the proper revenue line item in the general ledger.

108 N. Spring St. ▪ St. Johns, MI 48879-1574 ▪ (989) 224-6836 ▪ FAX: (989) 224-6837
745 Barclay Circle, Suite 335, PO Box 70067 ▪ Rochester Hills, MI 48307 ▪ (248) 844-2550 ▪ FAX: (248) 844-2551

- Receipts collected by the DDA appear to be transmitted to the City's Treasurer without being counted by the DDA. The DDA should be submitting documentation indicating the amount being transmitted to the City, so that the receipts can be counted and verified by the City.
- Fundraising activities and their related expenditures appear to lack adequate oversight by the DDA Board. Through review of the minutes of the Board meetings, the observations noted above, and through discussions with management of the City, it appears that employees of the DDA often take action without obtaining approval of the DDA Board. This particular issue was noted during the fiscal year and a separate letter dated June 2, 2004, detailing our suggestions was issued.

As the DDA is a component unit of the City, we suggest the DDA Board work with City Council to review and evaluate current practices and procedures related to the DDA and make necessary revisions to strengthen and improve internal controls.

3. The City should escheat unclaimed property to the State of Michigan.

During our audit, it was noted that the City had outstanding checks listed in several of its bank reconciliations that were more than a year old. The Michigan Public Act 29 of 1995 provides that the City report and escheat unclaimed property to the State of Michigan that is greater than one year old.

We suggest the City attempt to contact the payees in an effort to clear old outstanding checks. In the event that the rightful property owners cannot be located, we suggest the City review their unclaimed property and escheat funds to the State of Michigan as necessary.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the basic financial statements, and this report does not affect our report on the financial statements dated September 22, 2004.

This report is intended solely for the information of management, the Mayor, and members of the City Council of the City of Portland and is not intended to be, and should not be, used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss this suggestion with you and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 22, 2004

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA

Karen A. Roka, CPA
James A. Huguelet, CPA
Alan D. Panter, CPA
William I. Tucker IV, CPA
Kurt M. Lemmen, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

Member:
American Institute of
Certified
Public Accountants
and
Michigan Association of
Certified Public
Accountants

MANAGEMENT LETTER

To the Members of the Board
Downtown Development Authority
City of Portland
Portland, Michigan

As you know, we have recently completed our audit of the records of the City of Portland Downtown Development Authority as of and for the year ended June 30, 2004. In connection with the audit, we feel that certain changes in your accounting and administrative procedures would be helpful in improving management's control and the operational efficiency of the accounting and administrative functions. This suggestion is a result of our evaluation of the internal control and our discussions with management.

The internal controls related to the Downtown Development Authority should be evaluated and revised.

During the course of our audit, we noted several areas of operation of the Downtown Development Authority that provide opportunities for improvement in internal control. Specifically, we noted the following:

- Receipts collected by the DDA are not always transmitted to the City's Treasurer for deposit in a timely manner. In some instances, the receipts were collected several months prior to being transmitted to the Treasurer.
- Receipts collected by the DDA are often transmitted to the City's Treasurer without supporting documentation. Supporting documentation or other correspondence, such as a receipts log, would provide the City's Treasurer with a means of classifying the receipts into the proper revenue line item in the general ledger.
- Receipts collected by the DDA appear to be transmitted to the City's Treasurer without being counted by the DDA. The DDA should be submitting documentation indicating the amount being transmitted to the City, so that the receipts can be counted and verified by the City.
- Fundraising activities and their related expenditures appear to lack adequate oversight by the DDA Board. Through review of the minutes of the Board meetings, the observations noted above, and through discussions with management of the City, it appears that employees of the DDA often take action without obtaining approval of the DDA Board. This particular issue was noted during the fiscal year and a separate letter dated June 2, 2004, detailing our suggestions was issued.

As the DDA is a component unit of the City, we suggest the DDA Board work with City Council to review and evaluate current practices and procedures related to the DDA and make necessary revisions to strengthen and improve internal controls.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the basic financial statements, and this report does not affect our report on the financial statements dated September 22, 2004.

This report is intended solely for the information of management and members of the Board of the City of Portland Downtown Development Authority and is not intended to be, and should not be, used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss this suggestion with you and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 22, 2004